THE QUÉBEC ECONOMY 1987

Planning and analysis
Statistical analysis

June 1988

Regional Industrial Expansion
Expansion industrielle régionale
Canada

© Minister of Supply and Services Canada 1988
Cat. No. C29-1/1-1987 E
ISBN 0-662-16281-1

FOREWORD

The Quebec economy 1987, an analysis of economic trends, is produced by the Department of Regional Industrial Expansion, Quebec Region, in Montreal.

The study depicts recent trends in Quebec's economy and industrial base, against a national and international background. A brief overview of the economy in each region of the province is provided.

The Quebec economy 1987 offers readers short structural analyses of a number of key factors in Quebec's economic development. These are to be found in Part II of the study, and include the pharmaceutical industry, exports, the tertiary sector and the new federal government approach to industrial and regional development.

The Quebec economy 1987 was prepared under the responsibility of Jean-Pierre Lussier of Statistical Analysis. Other members of the team included Léonel Plasse, Daniel Chicoine, Claude Lussier, Claude Valiquette and Philippe Aubé. Technical input was provided by Chantal Nault and Doris Larose. The entire team was directed by François Gauthier, Director of the Planning, Analysis and Evaluation Branch. The Department welcomes readers' comments.

Lise Lachapelle
Executive Director
Quebec Region

TABLE OF CONTENTS

Foreword.....i

Table of contents.....ii and iii

List of graphs.....iv to vi

List of tables.....vii and viii

PART I: Analysis of 1987 economic situation.

International economic situation.....1

Canadian economy.....5

Economic situation in Quebec.....13

Overview.....13

Labour market.....18

Primary sector.....23

Manufacturing.....31

Consumer goods industries.....36

Resource processing industries.....42

Capital and industrial goods industries...51

Tertiary sector.....67

Tourism.....76

Overview of Quebec regions in 1987.....77

Montreal region.....78

Central regions.....80

TABLE OF CONTENTS
(cont'd)

Resource regions.....82

Map of administrative regions.....86

Outlook for Quebec in 1988.....87

PART II: Major factors affecting the Quebec economy

Quebec's pharmaceutical industry.....93

Quebec's exports.....100

Quebec tertiary sector.....113

New approaches to industrial development and regional development.....123

LIST OF GRAPHS

PART I: Analysis of economic situation in 1987

Graph no.		Page no.
1	GNP/GDP IMPLICITE PRICE INDEX	2
2	MAJOR OECD COUNTRIES Net job creation and unemployment rates 1987	3
3	TRENDS IN CANADIAN OUTPUT	5
4	TRENDS IN CANADIAN CAPITAL EXPENDITURE Total - Manufacturing	7
5	CANADIAN EXPORTS Selected products	9
6	REAL GROSS DOMESTIC PRODUCT	13
7	CAPITAL EXPENDITURE IN QUEBEC Total - Private - Public	15
8	TRENDS IN TOTAL EMPLOYMENT	18
9	EMPLOYMENT IN QUEBEC Full time - Part time	19
10	TRENDS IN QUEBEC GDP Agriculture - Forestry - Mining	24
11	FARM CASH RECEIPTS Expenses and net income	25
12	QUEBEC MANUFACTURING SECTOR Share of GDP - Share of employment	31
13	MANUFACTURING IN QUEBEC Main exports	32
14	EMPLOYMENT IN QUEBEC MANUFACTURING Changes by industry	34
15	TRENDS IN QUEBEC CAPITAL EXPENDITURE Food and beverages	37

LIST OF GRAPHS
(cont'd)

Graph no.		Page no.
16	TRENDS IN QUEBEC CAPITAL EXPENDITURE Furniture and fixtures	40
17	TRENDS IN QUEBEC CAPITAL EXPENDITURE Clothing	41
18	TRENDS IN QUEBEC CAPITAL EXPENDITURE Wood	44
19	TRENDS IN QUEBEC CAPITAL EXPENDITURE Paper	46
20	TRENDS IN QUEBEC CAPITAL EXPENDITURE Primary metals	49
21	TRENDS IN QUEBEC CAPITAL EXPENDITURE Printing and publishing	55
22	TRENDS IN QUEBEC CAPITAL EXPENDITURE Machinery	58
23	TRENDS IN QUEBEC CAPITAL EXPENDITURE Transportation equipment	60
24	TRENDS IN QUEBEC CAPITAL EXPENDITURE Electrical and electronic equipment	63
25	TRENDS IN QUEBEC CAPITAL EXPENDITURE Chemical industries	65
26	NET JOB CREATION IN QUEBEC By sector Primary - Secondary - Tertiary	68
27	RETAIL SALES 1987	71
28	NEW HOUSING PRICE INDEX	72
29	EMPLOYMENT BY REGION	78
30	CAPITAL EXPENDITURE IN MANUFACTURING	80

LIST OF GRAPHS
(cont'd)

PART II: Major factors affecting the Quebec economy

Graph no.		Page no.
31	TRENDS IN INTERNATIONAL EXPORTS OF GOODS.....	101
32	QUEBEC'S FOREIGN EXPORT MARKETS 1987.....	102

LIST OF TABLES

PART I: Analysis of economic situation in 1987

Table no.		Page no.
1	International economic situation: Major OECD countries	4
2	Canadian economy: Main indicators	12
3	Economic situation in Quebec	17
4	Labour market in Quebec	22
5	Farm cash receipts in Quebec	26
6	Primary sector in Quebec	30
7	Manufacturing capital expenditure in Quebec	35
8	Consumer goods industries	42
9	Resource processing industries	51
10	Capital and industrial goods industries	66
11	Tertiary sector in Quebec	75
12	Overview of Quebec regions 1986-1987	85
13	Comparison of forecasts - Quebec 1988	89

PART II: Major factors affecting the Quebec economy

14	Share of industry activity in Canada Quebec and Ontario	94
15	Main products exported Quebec 1986	104

LIST OF TABLES
(cont'd)

PART II: Major factors affecting the Quebec economy

Table no.		Page no.
16	Main products exported Canada 1986	105
17	Capital stock per employee - major manufacturing industries (1984)	107
18	Capital expenditure Manufacturing - All sectors	108
19	Quebec's shipments and exports (1986)	111
20	Scope of the tertiary sector in Quebec 1987	114
21	Average weekly wages Quebec 1987	115
22	Job creation in Quebec 1980-1986	116
23	Breakdown of small businesses by administrative region - 1987	118
24	International trade in business services by province - 1984	121

PART I

Analysis of 1987 economic situation

INTERNATIONAL ECONOMIC SITUATION

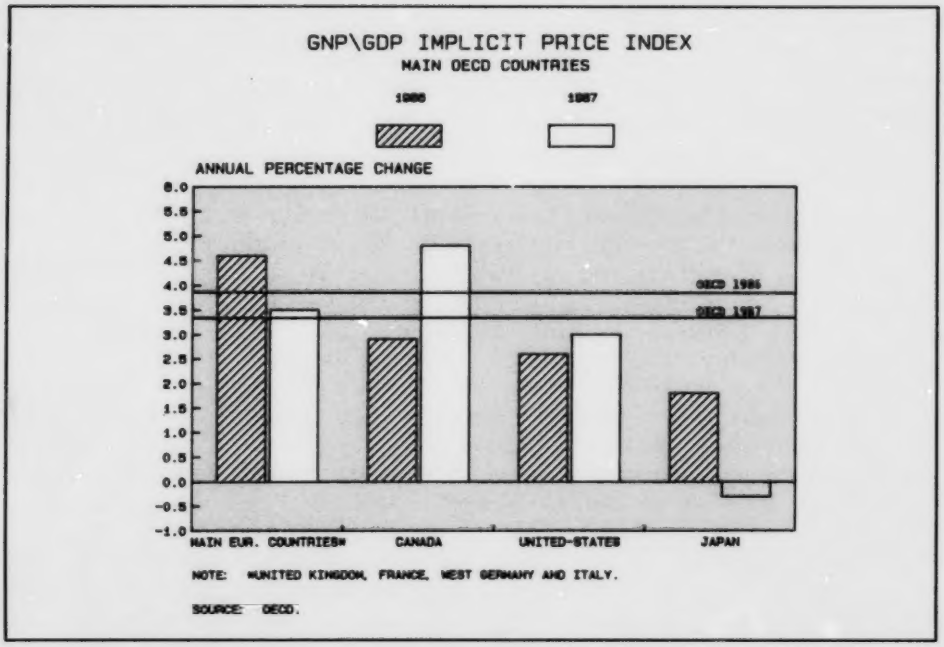
Developments in the world economic situation

As in the previous year, the economic performance of Organization of Economic Co-operation and Development (OECD) countries yielded disappointing gains in 1987. With the exception of Canada, the United States, the United Kingdom and Japan, whose economies grew more quickly, most other OECD countries experienced a period of sluggishness. In all, real GNP growth among OECD members slowed slightly to 2.75% in 1987 from 2.8% the previous year.

Among the major countries, West Germany's contribution to the OECD's economic growth fell back considerably in 1987. The mark rose substantially against the U.S. dollar and the Federal Republic of Germany experienced adjustment problems that led to a slowdown in its economy. During the year, domestic demand was insufficient to take over from exports as a generator of growth. Added to these factors was a decline in capital investment attributable in large part to the uncertainty surrounding the path of the German mark. Signs of weakness were also seen in France, owing in particular to weak growth in consumer spending, attributable to stagnating real income. Having shown signs of running out of steam in 1985 and 1986, the American economy began to pick up in 1987, albeit moderately. In the United States, the steadying of activities was made possible by a major building-up of inventories by industry, particularly in the automotive sector. In Japan, where domestic demand took over from the foreign trade balance as the engine of growth, the economy quickly picked up again in 1987, after experiencing some problems in 1986. Indeed, Japan's growth performance was second only to Canada's and the United Kingdom's among OECD countries.

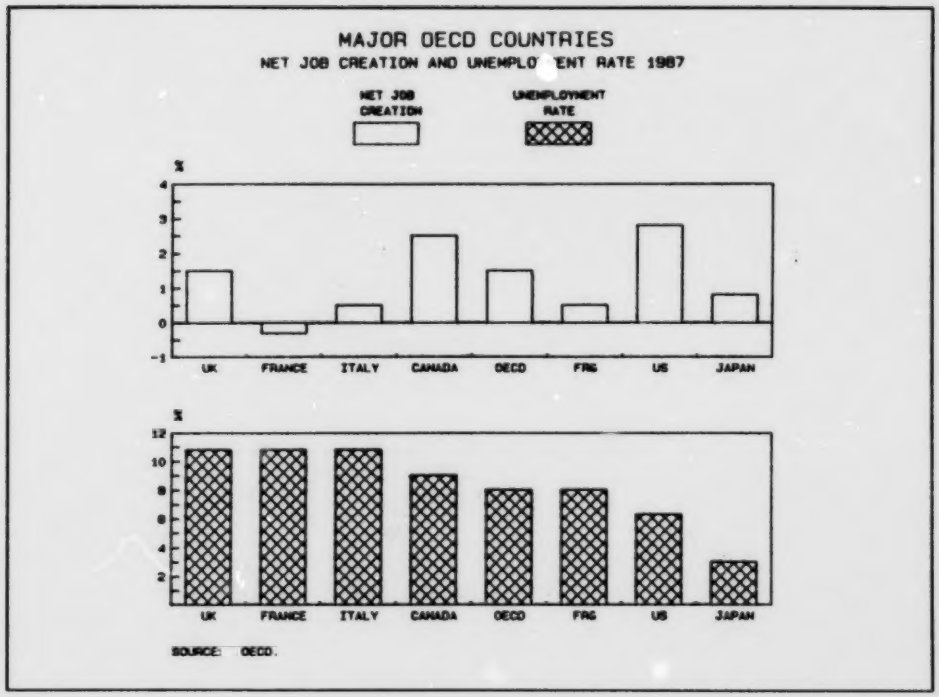
Inflation, while still satisfactory overall in most countries, none the less increased slightly in 1987. With the steadying of oil prices on international markets and the recovery of raw material prices, the inflation rate in the OECD as a whole moved up to 3.5% in 1987 from 2.9% in 1986.

Graph 1



Reflecting the lifeless economic growth, job creation in OECD countries was far from impressive in 1987. In all, the number of workers grew by a mere 1.5%, just enough to maintain the unemployment rate at 8.0% in 1987. Within the OECD, there were major variations. While marked employment gains were posted in North America, yielding a slight drop in the unemployment rate in the United States and Canada, labour market conditions in most European countries, on the other hand, remained unsatisfactory. For these countries, job creation was not sufficient to absorb the number of new labour market participants, and so the unemployment rate rose. Among major European OECD countries, France and Italy were particularly hard hit by the economic slowdown, each posting the same 10.75% jobless rate in 1987. Japan also showed disappointing results. Export activities became much less competitive, owing to the strong yen, and this contributed substantially to the increase in the Japanese unemployment rate, which hit a record high of 3% in 1987.

Graph 2



Having been substantially reduced in 1986, the OECD current operating balance deficit deteriorated markedly in 1987. In all, for the OECD as a whole, it jumped from $22.8 billion in 1986 to $46 billion in 1987. The increase in the U.S. foreign trade deficit, largely attributable to the growing penetration of imports on the domestic market, was once again behind the downturn in 1987. In fact, despite successive drops in the value of the U.S. dollar, making American products more competitive on foreign markets, there was no sign of a turnaround in 1987. On the contrary, the U.S. foreign trade deficit climbed to $156 billion, shattering the $141.3 billion record set the previous year. Moreover, this situation, more disquieting than ever, was reflected in a marked loss of investors' confidence vis-à-vis the U.S. economy. With import prices slow to rise after the fall of the U.S. dollar and consumers' buying habits changing little in the short term, imports maintained their market share in the United States. Things could pick up again over

the next few quarters, albeit gradually. With the adjustment in the price of imported goods, which should occur sooner or later, import growth will slow down considerably, and a correction of the foreign trade deficit will ensue.

As in previous years, the increased U.S. deficit was largely offset by the higher surpluses enjoyed by other OECD members, in particular Japan and West Germany, which posted record surpluses in 1987 of $86 billion and $44 billion respectively.

Table 1

INTERNATIONAL ECONOMIC SITUATION

major OECD countries
annual % change

COUNTRIES	REAL GNP		Employment		Private consumption deflators	
	1986	1987	1986	1987	1986	1987
United States	2,9	2,8	2,3	2,8	2,2	4,0
Canada	3,3	3,8	2,9	2,5	4,2	4,3
Japan	2,4	3,5	0,8	0,8	0,6	0,3
France	2,0	1,5	-0,1	-0,3	2,5	3,3
Germany	2,5	1,5	1,0	0,5	-0,5	0,8
Italy	2,7	2,8	0,8	0,5	6,1	5,0
United Kingdom	3,3	3,8	0,5	1,5	3,6	3,0
Total OECD	2,8	2,8	1,5	1,5	2,9	3,5

Source: OECD.

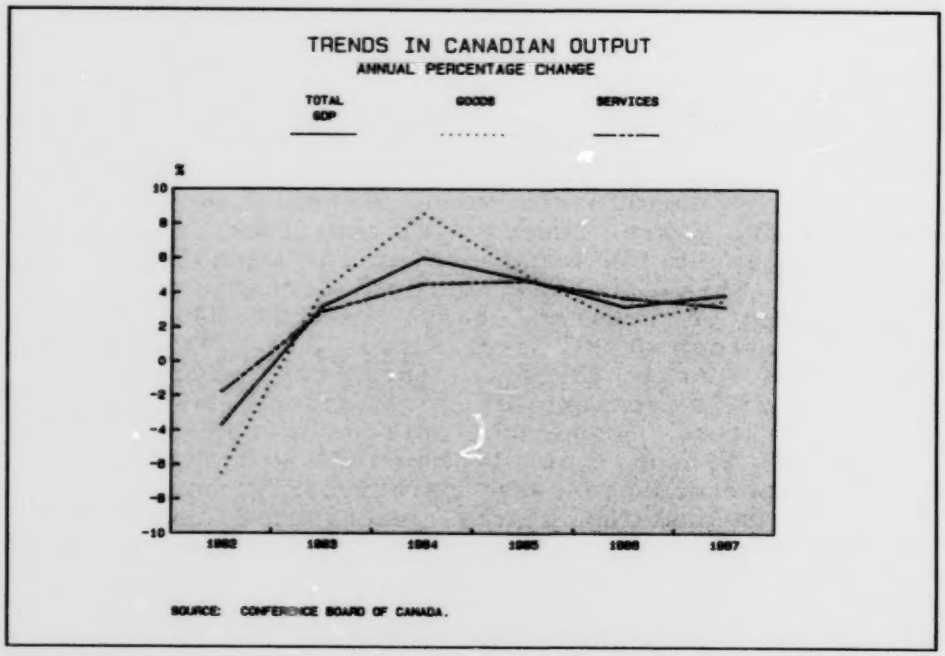
Note: The Canadian figures may differ from those quoted later.

The private consumption deflator includes all goods and services sold in the market, excluding goods and services produced and sold by governments.

CANADIAN ECONOMY

The Canadian economy was surprisingly strong in 1987, continuing to exhibit economic growth for the fifth year running. With the exception of the foreign trade sector, all components of overall demand contributed to Canada's economic expansion in 1987. Thanks to strong consumer spending, booming residential construction and a strengthening in business investment, Canada's real GDP growth moved up to 3.9% in 1987, far surpassing the forecasts made at the beginning of the year.

Graph 3



Higher prices for raw materials and higher oil prices on international markets, allowing the Western provinces to revive their economic activity, also played a decisive role in 1987. The performance of the Canadian economy was all the more encouraging since for the second year running Canada posted the highest economic growth of any major industrialized OECD country.

As in 1986, consumer spending was the engine of the economy in 1987, performing quite strongly throughout the year. In all, consumer spending was up 4.5% in real terms thanks to higher personal disposable income, increased consumer confidence in the economy and the substantial drop in the savings rate. This rate hit a 15-year low of 8.9% in 1987, down from 11.5% in 1986.

Overview by sector

Sales of durable goods, primarily automobiles, contributed most to the increase in consumer spending in 1987. Indeed, partly owing to numerous purchase incentives, the value of automobile sales moved up by 7.7%, so that spending on durable goods posted a gain of 7.9% in real terms. Among other durable goods, sales of furniture and appliances also enjoyed substantial gains, reflecting the boom in the residential construction sector. Sales of semi-durable and non-durable goods slowed down somewhat, rising by only 2.2%. Service expenditures, accounting for some 45% of all consumer spending, showed substantial gains (+5.2%), largely because of higher housing costs.

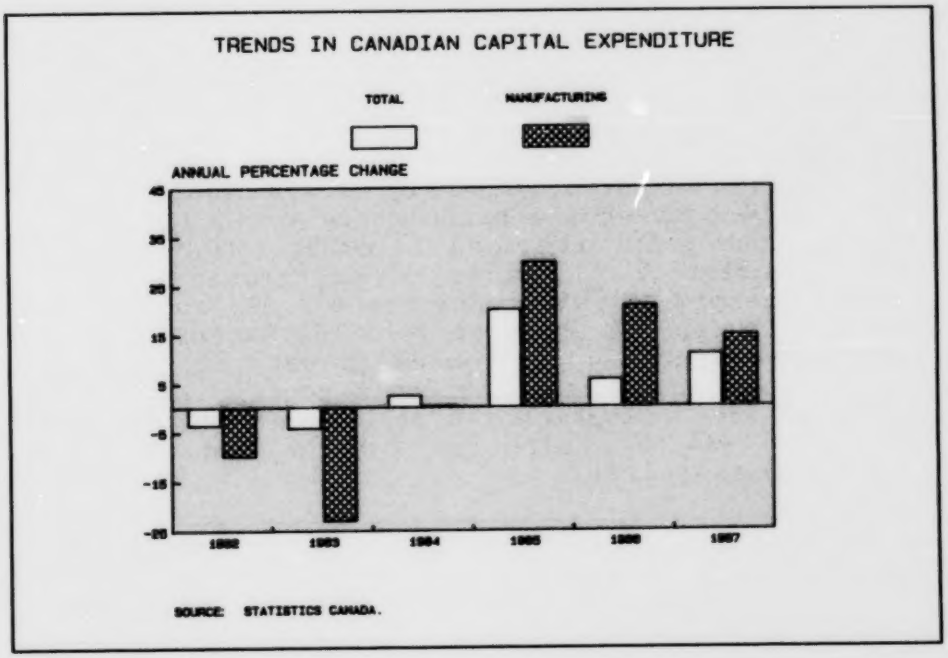
Posting a dynamic performance without precedent over the past two years, residential construction contributed strongly to the expansion of the Canadian economy in 1987. Thanks to the improved economic situation, the number of housing starts reached 245,986 units (+23.1%), the highest level since 1977. This performance was particularly satisfactory since it was achieved in a context of high prices and mounting mortgage rates. Home construction was especially firm in Central Canada, notably Montreal and Toronto. In Quebec, performance was particularly strong once again, with housing starts reaching a new high of 74,179 units (the previous record of 68,148 units was set in 1976). The economic recovery, which also affected Western Canada, was reflected in housing starts, which recorded satisfactory gains in 1987.

Investment

Unlike previous years, the contribution of investment to Canada's economic growth was particularly satisfactory in 1987. According to Statistics Canada's survey, investment was up by 9.3% in 1987, a considerable improvement over the previous year (+4.6%). Several factors explain this improvement, among them the strong recovery in corporate profits, the strengthening of oil prices and the marked increase in the

capacity utilization rate. Added to these factors was the positive impact of increasing investment from abroad, particularly in the manufacturing sector.

Graph 4



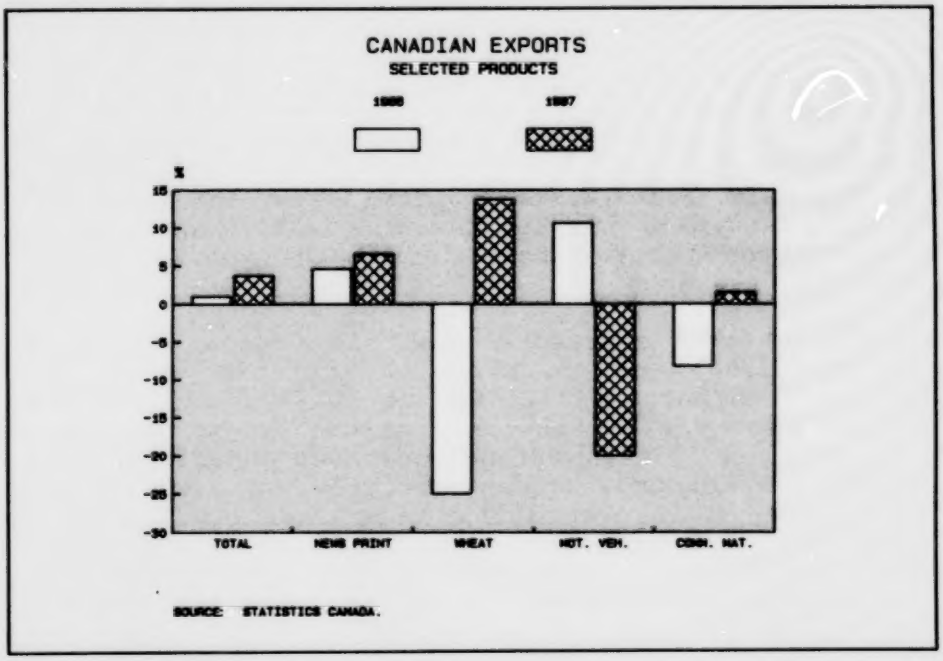
Investment increased apace in Central Canada last year, with Quebec and Ontario posting rises of 10.9% and 12.7% respectively. The outstanding feature of 1987 was without question the resurgence of investment in the Western provinces. Indeed, with the recovery of raw material and energy prices, capital expenditure in the Prairies and British Columbia moved up by 4.5% and 14.3% respectively. In B.C., major capital projects were announced by pulp and paper producers. In Alberta, renewed energy sector activity led to investment with oil wells starting up again. This performance was all the more heartening as it marked the end of the downward trend seen successively since the end of the recession.

Foreign trade

For the third year in a row, the performance of Canada's foreign trade sector was disappointing in 1987. Posting modest gains throughout the year, particularly in manufactured products, exports contributed very little to Canada's economic growth in 1987. For the year as a whole, the value of exported goods was up by only 3.7% over 1986, reaching $125.1 billion.

Plummetting exports of automotive products, including passenger vehicles, trucks and other vehicles and parts, were largely responsible for the poor performance of Canadian exports in 1987. Indeed, owing to sluggish U.S. domestic demand and the temporary closure of GM Canada's plants for modernization, exports of passenger vehicles, which account for more than 20% of all Canadian exports, fell by 20.0% compared with 1986. This substandard performance was sufficient to wipe out the gains recorded in other export products almost completely. Exports of electronic tubes and semi-conductors (+1.6%), asbestos (-9.3%) and precious metals including alloys (-51.3%) also experienced some difficulty, recording decreases or very slight gains. On the other hand, among products posting substantial increases were newsprint (+6.5%), wood pulp and similar pulp (+34.4%), aluminum (+17.6%) and fresh or chilled meats (+6.8%).

Graph 5



Owing to the modest increase in Canadian exports, which was too small to offset the rise in the value of imports, Canada's export surplus was down slightly from its 1986 level. During the year, the trade surplus with respect to goods was approximately $10.3 billion, compared with $10.4 billion the previous year.

The current account deficit, which includes services, also worsened somewhat in 1987 with the declining trade surplus. In all, it rose from $9.3 billion in 1986 to $9.6 billion in 1987.

After falling substantially in 1986, primarily because of lower profits in the oil sector, Canadian corporate profits recovered strongly in 1987. Canadian companies' declared after-tax profits moved up by 17.1% during the year, thanks to successive increases in the price of forest products, metals and oil, which generated record profits for several firms.

Labour market

Stimulated by the strong economy, labour market conditions in Canada remained excellent in 1987. Growth in output, which was particularly high in the first half of the year, translated into a marked increase in demand for manpower. According to the Labour Force Survey, the number of persons working in Canada grew by 2.8% in 1987, adding 321,000 new workers to the 1986 figure. But this encouraging situation hides major regional disparities. Whereas labour market conditions were especially satisfactory in Quebec and Ontario, with the number of jobs up by 3.5% and 3.3% respectively, the Western provinces, in particular Manitoba (0.8%), Saskatchewan (0.2%) and Alberta (0.4%) dragged their feet during the year, creating only very few jobs.

Nearly all jobs created in 1987 in Canada were full-time (+309,000, or +3.2%), with part-time employment virtually unchanged (+12,000, or +0.7%). As in 1986, job creation was particularly strong in the construction sector. Reflecting increased housing starts across the country, employment grew by 53,000, up a substantial 8.5% over 1986. Good results were also recorded in the tertiary sector. Boosted by underwriters, insurance and real estate agencies (+41,000, or +6.3%) and services (+151,000, or +4.0%), 248,000-workers joined the tertiary sector in 1987, bringing their level to 3.0% above that of the previous year.

In the other sectors, however, the employment picture was considerably less cheerful in 1987. Reflecting weak exports to the United States, the manufacturing sector recorded a modest 1.4% increase in jobs over the previous year, representing a mere 29,000 new workers. Of Canadian manufacturing industries, only furniture, pulp and paper and wood gained significant ground, with respective job growth of 11.7%, 9.7% and 7.2%. The creation of these jobs was facilitated by the growing penetration of the U.S. market, translating into increased output.

Among other manufacturing industries, the situation was far from brilliant: a number of industries barely managed to maintain their employment levels, while others suffered major losses, among them clothing (-12.3%), rubber and plastics (-7.0%) and non-metallic mineral products (-3.3%).

In the primary sector, the number of persons working also continued to fall, with employment down 1.2% over 1986. The continued financial difficulties experien-

ced by Western farmers, attributable to low grain prices, were not unrelated to this phenomenon.

Substantial gains on the job creation front in 1987 (2.8%), coupled with slow growth in the labour force (2.0%), led to a perceptible decline in Canada's unemployment rate in 1987, which, at 8.9%, moved down seven-tenths of a percentage point since 1986 to its lowest level since 1981. Lower unemployment was spread more evenly among the regions in 1987, reflecting more balanced economic expansion across the country. While Ontario continued to lead by reducing its unemployment rate from 7.0% in 1986 to 6.1% in 1987, the situation also improved in most other provinces, especially Quebec and British Columbia. But conditions were somewhat different in the Maritime provinces, particularly Newfoundland, where the unemployment rate, despite drawing back slightly, stood at 18.6%.

Inflation in Canada remained at a satisfactory rate in 1987, especially in light of the increases in energy prices this year. Thanks to the modest rise in unit labour costs and moderate wage agreements reached during the year, the consumer price index rose by 4.4% in 1987, slightly faster than in 1986 (4.1%). The transportation (+3.6%) and clothing (+4.2%) components were key contributors to this good performance on the inflation front in 1987.

Table 2

CANADIAN ECONOMY
main indicators

Indicator	1982	1983	1984	1985	1986	1987
			($ million)			
Real GDP (1981 dollars)	307 863	317 858	337 080	353 290	364 523	378 850
Retail sales	97 639	106 243	116 080	129 446	140 009	153 726
Capital expenditure	76 761	73 519	75 378	90 504	95 708	106 054
Personal disposable income	262 861	276 013	300 835	325 909	343 455	363 513
Company profits	22 362	31 901	39 776	41 764	36 247	46 180
Exports	84 560	90 613	112 384	119 475	120 670	125 087
Trade balance	17 654	17 457	20 237	16 926	10 388	10 341
Current balance	2 824	3 066	3 437	-1 186	-9 268	-9 601
			('000)			
Labour force	11 958	12 183	12 399	12 639	12 870	13 121
Employment	10 644	10 734	11 000	11 311	11 634	11 955
Housing starts	126	163	135	166	200	246
Bankruptcies	10,8	10,3	9,6	8,7	8,5	7,7
			(%)			
Unemployment rate	11,0	11,9	11,3	10,5	9,6	8,9
Consumer prices	10,8	5,8	4,4	4,0	4,1	4,4
Capacity utilization rate	65,7	68,4	77,1	79,2	79,0	80,2

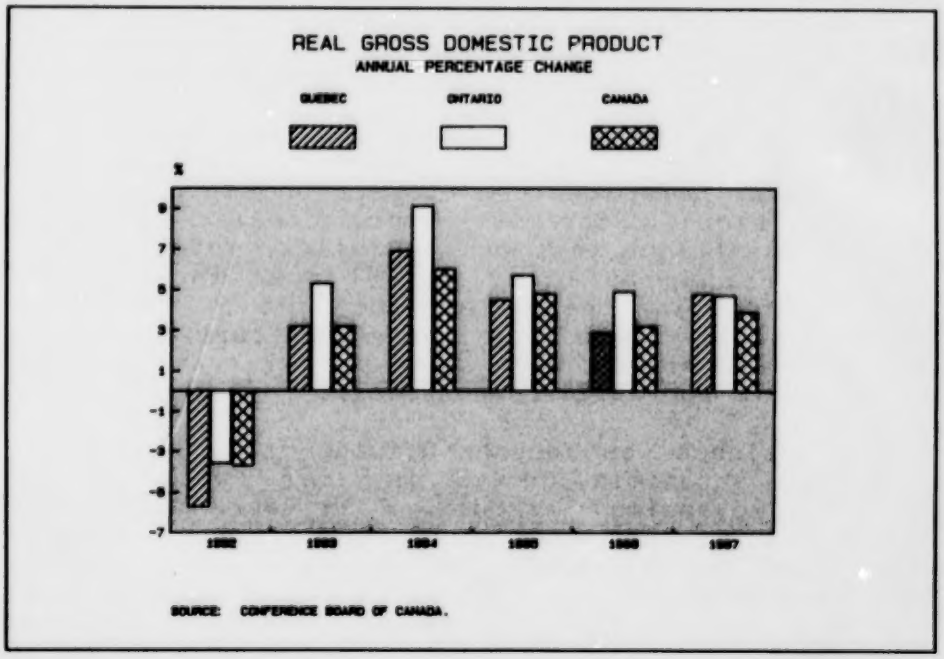
Source: Statistics Canada, Conference Board of Canada, Consumer and Corporate Affairs Canada.

ECONOMIC SITUATION IN QUEBEC

OVERVIEW

Quebec's economic expansion continued to accelerate in 1987 for the fifth straight year. The basis of Quebec's performance was strong consumer spending, booming residential construction and high corporate investment. In all, the province's GDP grew by 4.8% in real terms in 1987, a remarkably high rate given the maturity of the economic cycle. This performance was all the more exceptional since it was posted at a time when the world economy was showing slow growth. In fact, with this result Quebec becomes a front runner among industrialized economies and, with Ontario, its growth exceeds that of the other Canadian regions.

Graph 6



Flying in the face of the forecasts, Quebec's residential construction sector remained one of the pillars of growth in 1987. Despite the very high levels they had reached over the previous three years, housing

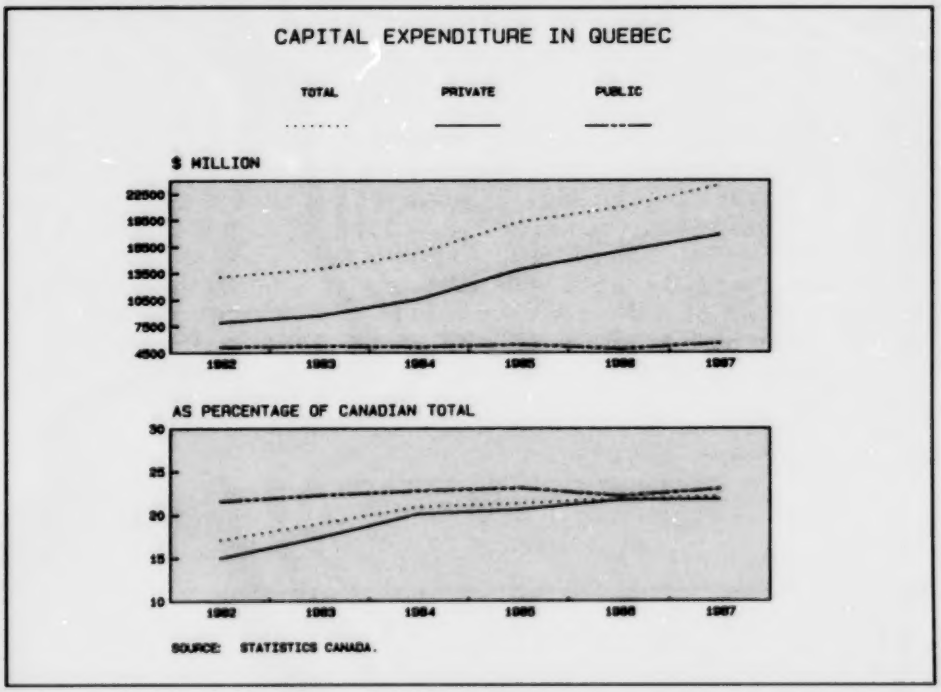
starts increased apace in 1987, posting a new record of 74,179 units in all and shattering the previous high of 68,148 units set in 1976. Unlike the previous year, where only multiple dwellings registered substantial gains, spirited activity was also seen in 1987 in the construction of single-family units. Indeed, while the number of multiple dwelling starts was up by 17.5%, demand for one-family homes was also very strong, up 29.0% over the previous year. Among Quebec regions, the Montreal area was particularly dynamic, accounting for over 70% of all housing starts in the province.

Nor was the impact of this boom slow to be felt among residential builders, most of whom substantially increased their level of business activity and their staff, with a number of them posting record profits.

As in the previous year, consumer spending remained very strong in 1987 and was one of the most dynamic components of the economy. Without doubt, two factors were behind this strength: the marked increase in individuals' disposable personal income, and the substantial drop in the household savings rate, which fell in 1987 to 8.9%, its lowest level since 1973. Added to these factors was increased consumer confidence in the economy, which was indeed stronger in Quebec than anywhere else in Canada. These elements combined to produce a marked 12.6% increase in retail sales, which totalled $38.9 billion. Most of the major store categories recorded large increases in sales in 1987, particularly motor vehicle dealers and furniture and appliance stores. For motor vehicle dealers, this was the fifth straight year of high sales, which at $8.2 billion were up by close to 20% over the previous year. Reflecting the Quebec-wide boom in home construction, sales by the province's furniture, appliance and hardware stores were also up substantially, by 17.7%, 37.7% and 24.2% respectively.

Quebec business was another driving force behind the province's economic growth in 1987, with capital projects advancing markedly. Private and public business investment rose to $23.4 billion, a substantial 12.2% higher than the previous year's level. This performance was above the national average (+10.8%), so Quebec's share of Canadian business investment climbed from 21.8% in 1986 to 22.1% in 1987.

Graph 7



Investment growth was very pronounced in utilities (+21.1%) and trade, finance and business services (+20.4%). Playing a major role in investment by utilities, and reversing a downward trend visible since 1982, was Hydro Quebec, with its massive capital projects, in particular construction work on a James Bay power line and on the Manic 5 power station. In the trade, finance and business services sector, investment continued to grow apace in 1987, owing in particular to the construction of office buildings and shopping centres in Montreal. Among other sectors, capital projects in manufacturing also grew more quickly in 1987. In all, Quebec manufacturers spent $4.2 billion, or 14.4% more than in 1986. Unlike the previous year, when the increased capital investment in manufacturing was largely attributable to the pulp and paper sector, in 1987 several other industries took over, posting marked gains, among them transportation equipment (+137.8%) and machinery (+48.3%).

Reflecting the vigorous economy, the number of businesses declaring bankruptcy in Quebec declined in 1987, reaching a total of 2,694, down 4.7% over the previous year. Nearly all types of industry recorded fewer bankruptcies, in particular finance, insurance and real estate (-41.8%), primary industries (-20.7%) and services (-5.4%). But the amounts swallowed up in these bankruptcies increased somewhat, totalling $458.8 million, compared with $451.9 million the previous year.

For the second year in a row, Quebec's foreign trade sector contributed little to the province's economic growth in 1987. Indeed, Quebec exports (nine months), at $14.7 billion, remained at much the same level as in 1986. The drop in exports of passenger cars (-56.0%), largely attributable to the temporary closure of GM's St. Thérèse facility for retooling and plant modernization, was the main factor behind this poor performance. Compounding this problem was weak U.S. demand for several other Quebec products, notably lumber (-7.0%), asbestos (-15.6%) and fresh, chilled or frozen meat (-5.3%).

Table 3

ECONOMIC SITUATION IN QUEBEC
main indicators

Indicators	1982	1983	1984	1985	1986	1987
			($million)			
Real GDP (1981 dollars)	68 210	70 416	75 309	78 707	80 954	84 827
Retail sales	23 497	25 784	29 006	31 782	34 593	38 948
Exports	14 400	14 961	17 356	18 611	19 929	14 770*
Capital expenditure	13 098	13 947	15 748	19 240	20 862	23 400
private sector	7 898	8 690	10 544	13 837	15 893	17 805
public sector	5 200	5 257	5 204	5 402	4 969	5 595
Personal income	80 056	83 685	91 361	99 255	105 705	113 125
Personal disposable income	62 855	65 573	71 765	77 738	81 919	87 181
Wages and salaries	45 380	47 013	50 857	54 626	58 015	62 503
			('000)			
Housing starts	23,5	40,3	41,9	48,0	60,3	74,1
Bankruptcies	4,4	3,9	3,3	2,8	2,8	2,7
Person-days lost	1 278	2 385	1 180	1 134	1 920	1 328

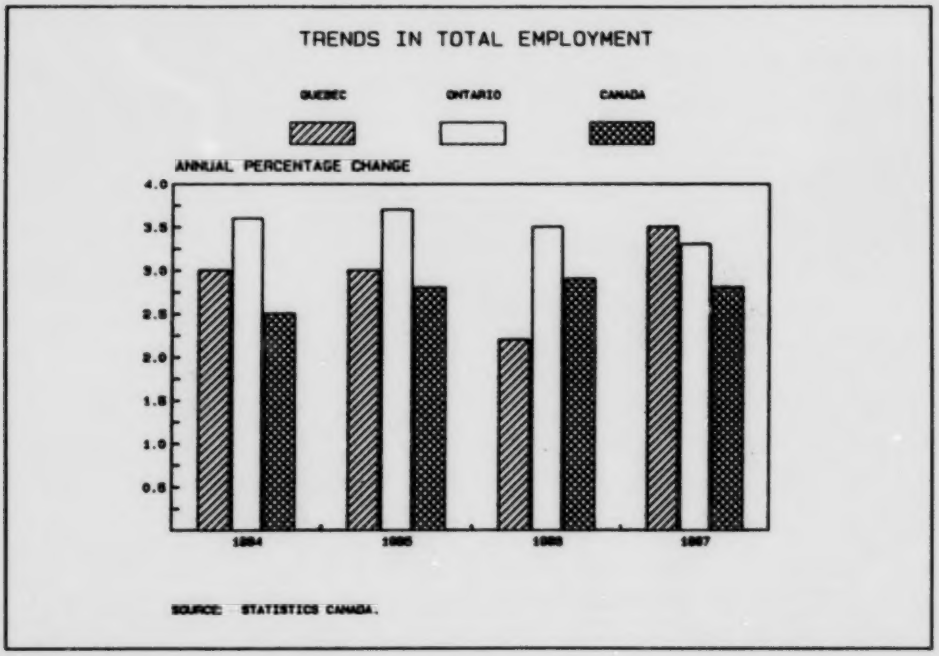
Note: *January - September.

Source: Statistics Canada, Conference Board of Canada, Quebec Bureau of Statistics, Consumer and Corporate Affairs Canada, and Quebec Department of Labour.

LABOUR MARKET IN QUEBEC

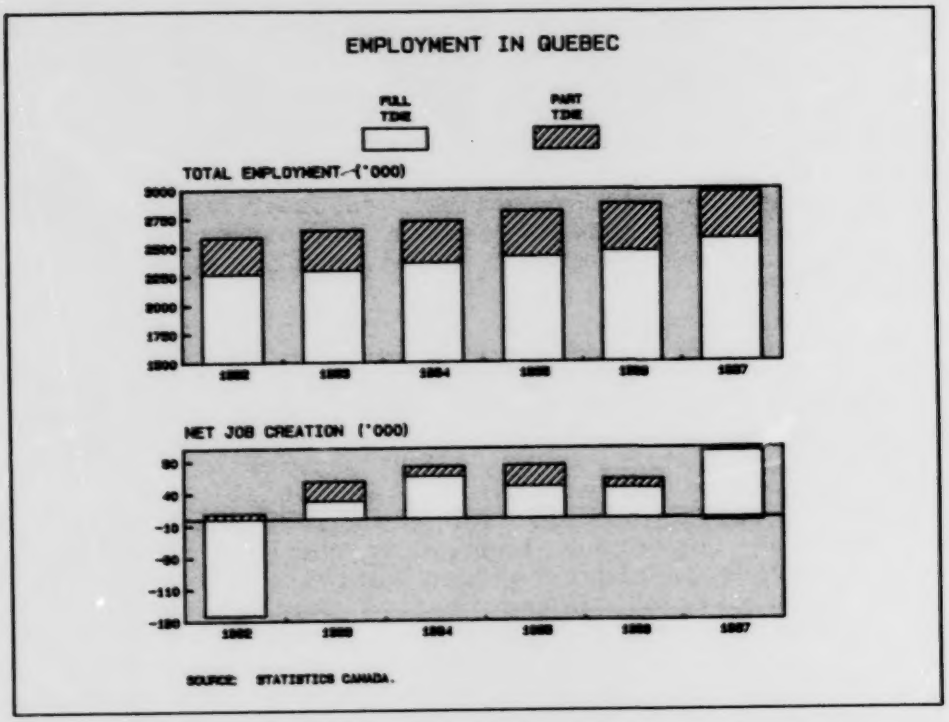
Quebec put in a solid performance on the job creation front in 1987. Strongly boosted by vigorous economic growth during the year, the number of persons employed grew by 100,000 to an average of 2,966,000, representing a marked increase of 3.5% over the previous year. Labour market conditions in 1987 were the best Quebec has seen since 1983, when 124,000 new jobs were created. This performance was even more encouraging as it compared favourably with that posted by Ontario (+3.3%) and Canada as a whole (+2.8%).

Graph 8



Interestingly, all the new jobs created in Quebec in 1987 were full-time, compared with 80% last year and a mere 60% in 1985. In all, the number of full-time positions rose by 104,000 during the year to 2,565,000, from 2,461,000 in 1986. The number of part-time jobs was down 4,000 (-1%) over the previous year.

Graph 9



Quebec's strong employment growth did not benefit all sectors of the economy equally in 1987. Indeed, nearly all the jobs created during the year were attributable to the construction and service sectors. In the former, strong residential construction activity was reflected in a stunning increase in the number employed from 141,000 in 1986 to 160,000 in 1987. At one point, there was even a manpower shortage, particularly of bricklayers. This performance was all the more remarkable since the construction sector in Quebec, which accounts for only 5.4% of total employment, provided close to 20% of new jobs province-wide. In the service sector, which is responsible for more than 70% of Quebec jobs, 1987 was also a very good year for job creation. Employing an average of 2,115,000 people during the year, a substantial 82,000 more than in 1986, this sector accounted for more than 80% of new jobs. Considerable gains were seen in transportation, communications and other utilities (+6.4%), finance, insurance and real estate (+9%) and public administration (+5.6%). Only the trade sector experienced some difficulty, creating a mere 6,000 new jobs (+1.2%) since the previous year, despite strong retail sales. This slowdown is largely explained by a decline of

some 6.5% in jobs in wholesale trade, which particularly affected women.

The situation of employment in manufacturing, though, was very disappointing in 1987. In all, the manufacturing sector added only 8,000 jobs during the year, up a mere 1.4% over 1986. This phenomenon is attributable in particular to streamlining and further mechanization of operations, which generate increased productivity and thus smaller manpower requirements. As in the previous year, the primary sector also ran against the general growth trend, losing 9,000 employees in 1987.

The good labour market conditions in Quebec in 1987 did not favour all age groups during the year. Benefitting most from new job creation was the 25-44 age group, whose employment grew by 4% over the previous year with the addition of 63,000 wage-earners. Among the older group (45 and over), the situation was also excellent, with the addition of 35,000 new positions (+5%). On the other hand, the employment picture among 15-24-year-olds remained worrying in 1987, with only 2,000 new jobs being created during the year in that group.

The participation of women in the Quebec labour market increased in 1987, with employment rising more quickly among women (+64,000) than men (+36,000).

Quebec's excellent job creation performance lowered the level of unemployment somewhat in 1987. In fact, the province's jobless rate went from 11% in 1986 to 10.3% in 1987, its lowest level since 1981. While it is encouraging, this rate remains higher than in Canada as a whole (8.9%) and lags far behind Ontario (6.1%). This improvement, which is quite modest considering the large number of jobs created during the year, is basically attributable to the swelling of the labour force owing to a substantial increase in the participation rate, up from 62.4% in 1986 to 63.5% in 1987. The rapid economic growth prompted many people to re-enter the labour market. This factor, coupled with an increase in the working age population, was reflected in a larger labour force (+85,000), precluding any chance of a substantial drop in the unemployment rate.

All the main age groups enjoyed lower unemployment in 1987. While the jobless rate in the 25-44 age group went from 9.9% in 1986 to 9.6% in 1987, among the 45-and-overs it fell by 0.3% to 8.1%. In both cases, the decline was the result of higher employment. Among young people (aged 15-24), the unemployment

picture also brightened somewhat in 1987. Although only 2,000 new jobs were created in this group, the withdrawal of 14,000 people from the labour force was sufficient to bring down the unemployment rate from 16.9% in 1986 to 14.9% in 1987.

Table 4

THE LABOUR MARKET IN QUEBEC
main indicators

	1982	1983	1984	1985	1986	1987
Population 15 years and +	4 996	5 039	5 074	5 115	5 162	5 210
15 to 24	1 212	1 177	1 139	1 103	1 067	1 029
25 to 44	2 001	2 053	2 101	2 151	2 200	2 249
45 and over	1 784	1 809	1 835	1 862	1 895	1 822
Labour force	2 998	3 069	3 123	3 181	3 221	3 306
15 to 24	719	717	706	697	685	671
25 to 44	1 514	1 574	1 642	1 709	1 768	1 830
45 and over	765	779	776	775	769	805
Employment	2 584	2 642	2 722	2 804	2 866	2 966
15 to 24	553	553	566	571	570	572
25 to 44	1 332	1 381	1 450	1 526	1 592	1 655
45 and over	701	708	706	707	703	740
Participation rate	60,0	60,9	61,5	62,2	62,4	63,5
15 to 24	59,3	60,9	62,0	63,2	64,2	65,3
25 to 44	75,7	76,7	78,2	79,5	80,3	81,4
45 and over	42,9	43,1	42,3	41,6	40,6	44,2
Unemployment rate	13,8	13,9	12,8	11,8	11,0	10,3
15 to 24	23,1	22,9	19,8	18,1	16,9	14,9
25 to 44	12,0	12,3	11,8	10,7	9,9	9,6
45 and over	8,4	9,1	9,4	9,2	8,6	8,3

Source: Statistics Canada, Labour Force Survey.

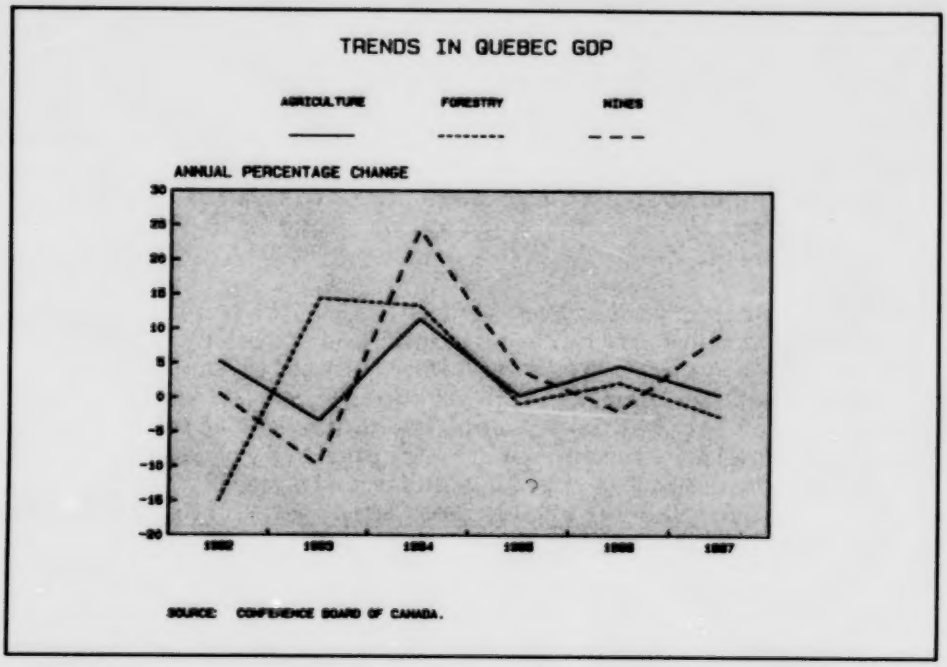
PRIMARY SECTOR

The situation of Quebec's primary sector, which includes agriculture, forestry, fishing and mining, improved in 1987. Overall, GDP grew by 2.7% in real terms, accounting for 3.8% of the province's real gross domestic product in 1987. This good performance was largely attributable to the turnaround in activities in the mining sector and the increase in farm cash receipts, particularly in dairy products, poultry, veal, fruit and market garden produce.

Primary sector businesses in Quebec none the less reduced their capital investment in 1987. In all, capital expenditure moved back by 5.7% to $768.6 million, primarily due to a drop of some $30 million in agriculture.

Although primary sector activities strengthened in 1987, the number of persons employed fell by 7.1% over the previous year. This is attributable in particular to increased mechanization of operations, with consequently smaller manpower requirements. Employment was down in all subsectors, especially agriculture (-6,000), forestry (-1,000) and mining (-2,000). The primary sector as a whole provided work for 118,000-people in 1987, or 4% of all jobs in Quebec.

Graph 10



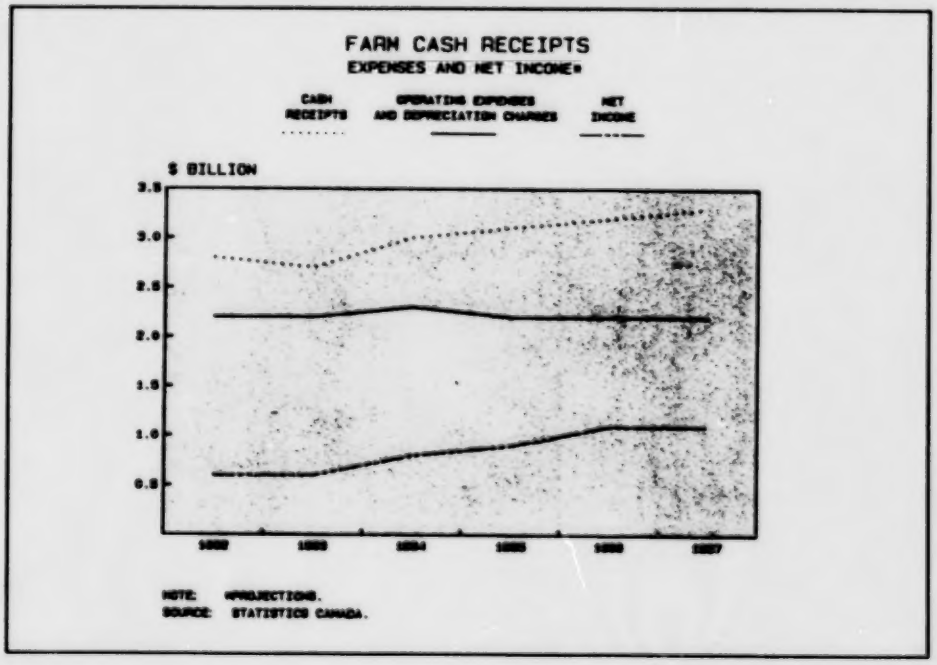
Agriculture

While Quebec agriculture continued to feel the effects of world overproduction, its economic health none the less improved in 1987, unlike the other Canadian regions. The fact that the Quebec agriculture sector is more diversified and farm income is less tied to grain production largely explains this phenomenon. Unlike the Western provinces, whose agriculture is less diversified, Quebec did not feel the impact of falling world grain prices in 1987. With their activities dominated instead by livestock and dairy products, Quebec producers were in an enviable situation in 1987, and a number of them were able to improve their financial position. Indeed, of all Canadian provinces, Quebec had the lowest proportion of farms in financial difficulty in 1987. This was reflected in a major drop in the number of farm bankruptcies, which went from 103 in 1986 to 67 in 1987. Whereas close to

one in three farm bankruptcies in Canada was attributable to Quebec in 1984, this ratio fell to less than 20% in 1987.

Farm cash receipts, including farmers' earnings from product sales and certain government deficiency payments, posted gains in 1987. For the year as a whole, farmers earned $3.30 billion, compared with $3.26-billion the previous year. While this growth does not reflect a significant improvement, most agricultural subsectors recorded gains during the year. This phenomenon is basically attributable to the deficiency payments made under income stability programs, which shrank substantially from $134.9 million in 1986 to $54.8 million in 1987.

Graph 11



Earnings from crops posted the highest gains, in particular fruit (+23.1%), vegetables (+12.4%) and tobacco (+35.7%). Having enjoyed good weather conditions during the year, crop sales rose by 4.7% from $497.9 million in 1986 to $521.4 million in 1987.

Livestock, accounting for more than 70% of all farm cash receipts, also did well in 1987, though more modestly. With the exception of pork (-3.4%), meat producers reaped larger profits during the year, because of high prices and lower feed costs, largely due to falling grain prices. Significant increases were enjoyed in particular by producers of calves (+24.1%) and cattle (+3.7%). Dairy product and poultry producers also experienced increased profitability during the year, with their receipts rising by 3.5% and 5.3% respectively.

Table 5

FARM CASH RECEIPTS IN QUEBEC
main products
($ million)

	1982	1983	1984	1985	1986	1987
Crops	350,5	436,1	488,1	544,3	498,0	521,4
Corn	94,0	115,8	142,2	158,5	126,1	96,0
Vegetables	85,3	83,6	94,2	102,6	111,0	124,9
Potatoes	41,7	40,9	48,4	36,9	45,1	46,0
Fruits	35,7	35,1	35,3	42,9	41,4	51,0
Other crops	93,8	160,7	168,0	203,4	174,4	203,5
Livestock and products	2 232,5	2 069,9	2 249,9	2 209,7	2,370,3	2 427,5
Dairy products	951,3	878,3	997,4	986,4	1 011,9	1 047,2
Hogs	682,9	563,5	596,3	567,1	672,8	649,7
Cattle and calves	264,1	296,3	276,6	273,7	296,1	322,6
Poultry	222,9	215,9	251,7	252,9	267,1	281,2
Other livestock and products	111,3	115,9	127,9	129,6	122,4	126,8
Other receipts	216,4	233,5	311,1	338,9	359,3	316,2
TOTAL	2 799,4	2 739,5	3 049,1	3 092,9	3 227,6	3 265,1

Source: Statistics Canada.

On the other hand, although the main subsectors of Quebec agriculture showed signs of vitality in 1987, these had no impact on the level of employment. On the contrary, the number of people employed in the Quebec agriculture sector fell by 6,000 to a substantial 7.3% below the previous year's level. Since the

reduction was less drastic in the country as a whole (-1.9%), Quebec's share of persons employed in Canadian agriculture moved down from 16.9% in 1986 to 16.0% in 1987.

Forestry

Logging activity in Quebec, which provides pulpwood for the pulp and paper mills and logs for the sawmills, performed weakly in 1987. Unlike the previous year, the Quebec logging industry did not benefit from increased shipments to major downstream manufacturers. In all, GDP fell by 2.7% in real terms, for its worst performance since 1982. Sustained demand for residential construction and steady paper consumption in North America played less decisive roles in 1987, although both contributed to the strengthening of demand for forestry products.

None the less, the sector's investment picture recovered in 1987. The modernization effort translated into a 9% rise in capital expenditure, putting an end to two straight years of stagnation. Expenditure on machinery and equipment was behind this growth, with spending on construction falling slightly. But Quebec only accounted for 9.4% of Canadian capital investment, a percentage far below that of its share of output (15.2%). Due to declining output, the number of persons employed was slightly down (-5.0%) in 1987, with some 1,000 jobs lost since 1986.

For Quebec's logging industry, 1987 was also marked by the application of a new forestry policy. In effect since April 1, 1987, this policy provides for the cancellation of all forestry concessions and the disappearance of the exclusive rights of certain private companies to a portion of Crown forest. Added to these new measures was the replacement of supply guarantees and timber licences by forestry supply and development contracts and permits for activity in Crown forests. The new stumpage fees will lead to the creation of some 7,000 new jobs in forestry development.

Fishing

The Quebec fishing industry speeded up its reorganization in 1987. While major steps were taken to streamline operations and restructure management methods, the privatization of the huge Madelipêche marine complex in the Magdalen Islands considerably changed the picture for the sector as a whole. Indeed, with the sale to two groups of private Magdalen Island

investors of the Cap aux Meules, Etang du Nord and Grande Entrée plants, as well as the Cap aux Meules fleet of eight boats, the Quebec government withdrew almost entirely from the fishery sector in 1987.

To judge by the landed value of catches, Quebec's fishing industry posted a good performance in 1987. Indeed, although catches remained relatively steady, Quebec fishermen's earnings rose substantially, largely owing to heavy price increases for most categories of fish, shellfish and crustaceans. The province's consumption of fishery products is growing and, with a limited supply, consumers are having to pay higher prices. Landings of groundfish, the most numerous species being cod, redfish and turbot, saw the greatest growth in terms of value, with a 66% gain over the previous year. The landed value of catches of shellfish and crustaceans, which account for more than half of Quebec fishermen's earnings, also rose considerably (+36%) in 1987, thanks largely to snowcrab, shrimp and lobster. Only earnings from pelagic fish, primarily herring, mackerel and salmon, declined.

The restructuring upon which the Quebec fishing industry has embarked and the more encouraging outlook stimulated investment in 1987. The modernization effort translated into a 15% increase in capital expenditure, shared equally between construction expenditures and investment in machinery and equipment.

Mining

After a long decline, signs of recovery gradually reached the Quebec mining industry in 1987. Renewed demand, generating higher world prices for some mine products, was sufficient to strengthen the sector's activities in Quebec. Overall, the total value of shipments of Quebec minerals hit $2.53 billion, a substantial 11.1% gain over the previous year.

Shipments from the metal mining sector enjoyed the fastest growth in 1987, in particular zinc and precious metals. Quebec's zinc production almost doubled in 1987, reaching 80,000 tonnes, its highest level in 10 years, largely thanks to the start of production in the new A-1 zone of Selbaie mines northwest of Joutel near Matagami in November 1986. Among precious metals, silver and gold both enjoyed a favourable situation in 1987. In the case of silver, the marked price increase encouraged a rapid increase in output, so the value of shipments rose considerably. In the case of gold, output was down somewhat over 1986, largely because of the month-long strike at North Gate Mines Inc. and other factors specific to

certain mines, such as the gradual exhaustion of reserves in Minnove Inc.'s Opemiska division. Owing to high prices, however, Quebec's gold producers increased the value of their shipments by 22% from the previous year's level. Consequently, gold remained the biggest money-maker in the Quebec mining sector in 1987.

Quebec's iron ore producers strengthened their activities in 1987, despite the depressed world market. The excess world production capacity was aggravated even further by the start of mining on the Carajas deposit in Brazil. In all, thanks to the more balanced conditions on the pellet market and the strong North American economy, Quebec's output of iron ore totalled approximately 16 million tonnes in 1987, 15% more than in 1986.

Quebec's copper sector remained in decline in 1987, largely owing to low prices, reduced demand and two fires which brought operations to a halt at the Gaspé Mines copper mine in Murdochville. Shipments from Quebec's copper mines totalled $112 million in value, down 15% from 1986.

Quebec's building materials industry performed well in 1987. Demand for cement, crushed stone and clay products was very steady in 1987, thanks to strong residential activity.

Unlike metal mining and building materials, industrial mining showed little activity in 1987. Demand for asbestos, for some years one of our biggest products, continued to be very slow. In 1987, the value of shipments stood at $230 million, compared with $242.8-million the previous year. The situation was also worrying in the peat sector, where the value of shipments fell by a substantial 36% from 1986.

In addition, although the overall situation of Quebec's mining industry improved somewhat in 1987, stronger activity was not reflected in higher employment. On the contrary, the number of persons employed fell by 2,000 to 21,000. This phenomenon is attributable to the restructuring and streamlining in which the mining industry has been involved for the past few years. Lethargy was also visible on the investment front, with expenditure down to $296.3 million in 1987 from $315.4 million in 1986 and $348.2 million in 1985.

Table 6

PRIMARY SECTOR IN QUEBEC
main indicators

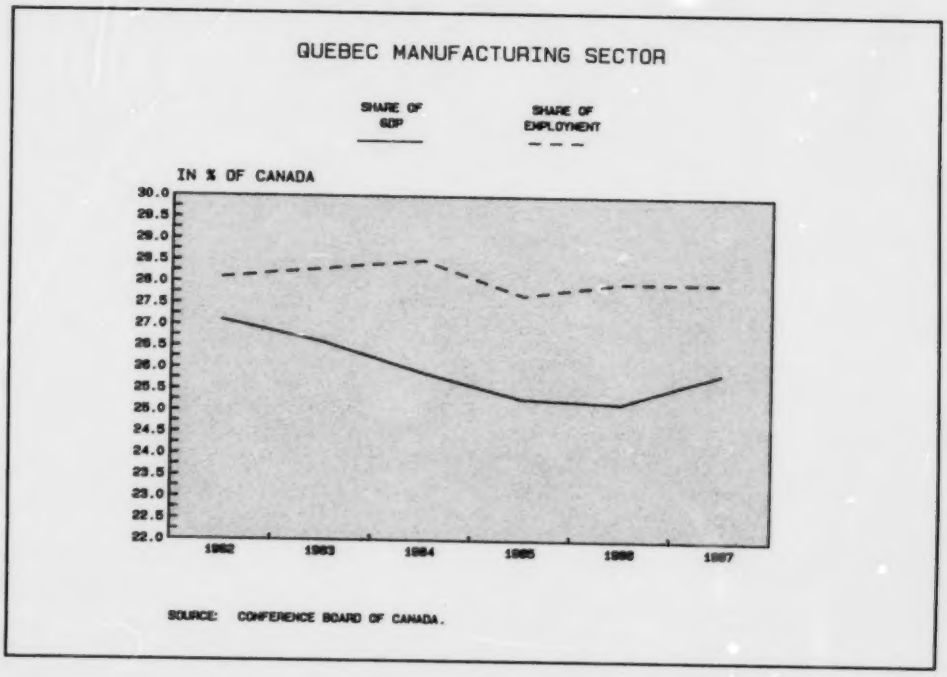
Group	GDP ($81 million)		Employment ('000)		Capital expenditure ($ million)	
	1986	1987	1986	1987	1986	1987
Agriculture	1 691	1 698	82	76	471	440
Forestry	433	421	20	19	21	23
Fishing and trapping	37	40	2	2	8	9
Mines	938	1 026	23	21	315	296
Total	3 099	3 185	127	118	815	768

Source: Statistics Canada, Conference Board of Canada.

MANUFACTURING

The activities of the manufacturing sector in Quebec strengthened considerably in 1987, enabling most manufacturers to increase sales and post higher profits. In all, Quebec's manufacturing GDP grew by 7.0% in real terms during the year, a marked improvement over the 1.8% growth rate recorded the previous year. This performance brought Quebec's share of manufacturing output up from 25.2% in 1986 to 25.9% in 1987.

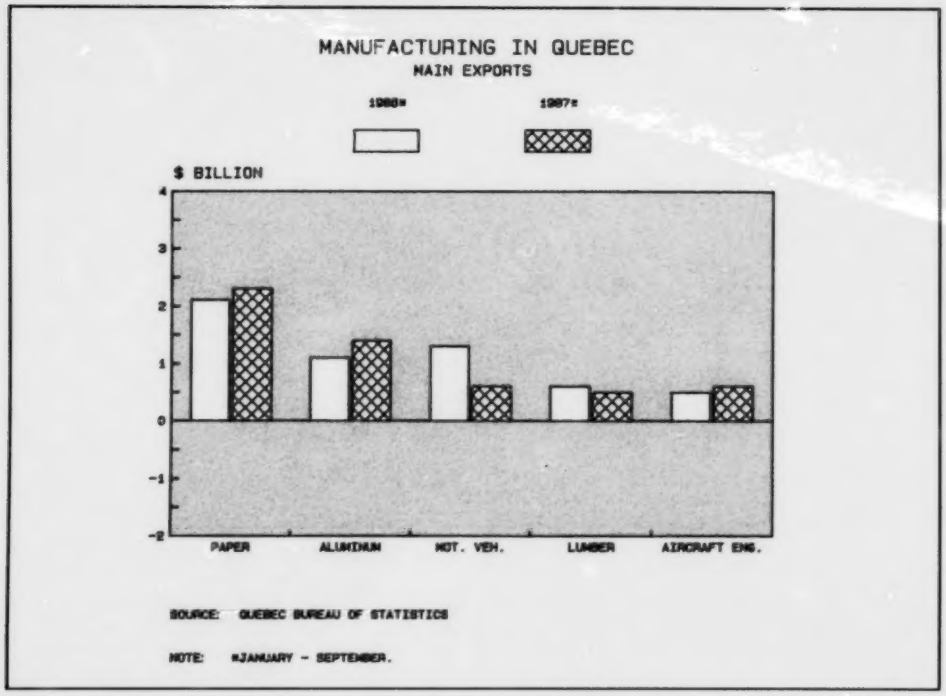
Graph 12



For the second year in a row, foreign trade contributed little to the expansion of the Quebec manufacturing sector in 1987. Indeed, buffeted by certain protectionist measures in the United States and the rising value of the Canadian dollar against its U.S. counterpart, total export shipments from Quebec were lethargic during the year, remaining virtually unchanged since the previous year at $14.7 billion (nine months). While sales of a number of the main export products experienced slower growth, others,

among them iron ore and concentrates (-4%), asbestos (-16%), passenger automobiles and chassis (-56%) and lumber (-7%), recorded a decline. In the case of passenger automobiles and chassis, Quebec's second largest export product after newsprint, the decline in exports is largely attributable to the temporary closure of GM's Boisbriand facility for plant modernization. Quebec's lumber producers lost ground primarily because of the introduction of a 15% surtax on Canadian lumber exports to the United States.

Graph 13



On the other hand, a number of export products took advantage of strong foreign demand to expand substantially, among them electronic tubes and semi-conductors (+91%) and aluminum (+19%). Quebec's aluminum manufacturers benefitted from renewed demand on world markets and continued low inventories worldwide. Marked growth was also observed in exports of railway rolling stock (+11%), boosted by Bombardier's final deliveries of cars for the New York subway, and in the

aircraft industry, in particular aircraft engines and parts (+20%). On the newsprint front, which accounts for some 15% of all Quebec exports, the situation was also favourable, with exports up 5% since 1986. This growth was largely attributable to the fact that U.S. publishers increased their inventories.

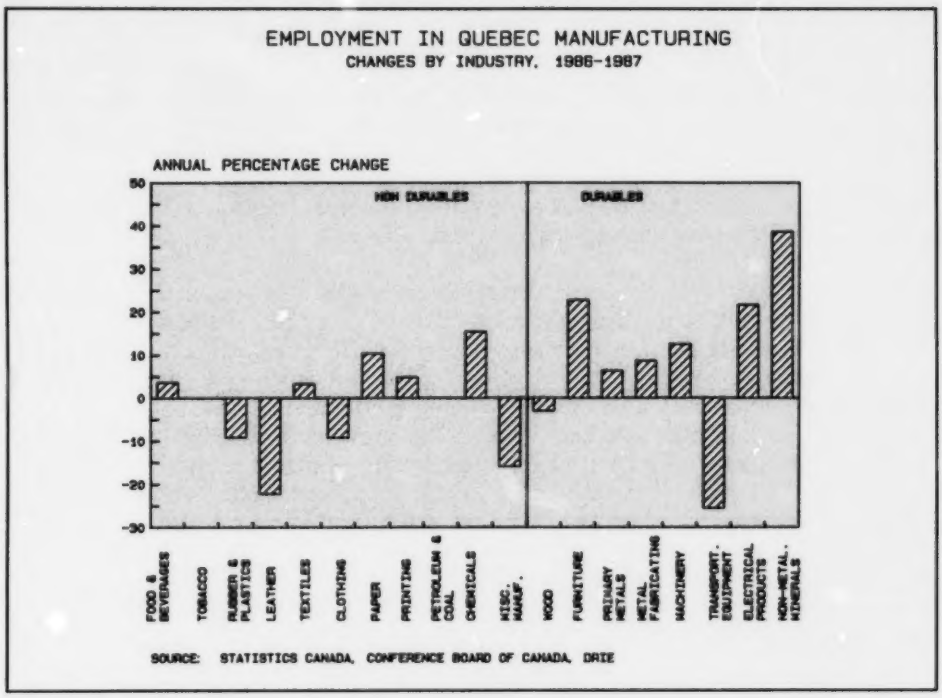
For 1987 as a whole, the value of Quebec manufacturing shipments amounted to $65.6 billion, a notable 8.3% increase over the previous year. Considering the approximately 2.6% increase in industrial selling prices during the year, the real growth in Quebec's manufacturing shipments was about 6%. This performance compares favourably with last year, when real growth was virtually nil, and it was particularly heartening in 1987, since it benefitted almost all manufacturing industries during the year. Only transportation equipment manufacturers experienced some difficulty, with deliveries down 9% since 1986.

But it was the construction-related manufacturing industries which posted the best performances overall. Indeed, benefitting from strong activity in residential construction in Quebec and elsewhere in Canada, Quebec's lumber and furniture producers enjoyed substantially higher sales in 1987, with their shipments up 13.5% and 14.4% respectively over the previous year. At the same time, the feverish activity in non-residential construction was reflected in substantially higher shipments in metal products (+15.9%) and non-metallic mineral products (+11.4%). Other sectors also posted good performances, among them machinery (+14.7%), plastics (+11.5%) and primary metals (+26.1%). The recovery of the world aluminum market played a major role in the case of primary metals.

The performance of Quebec's manufacturing sector on the employment front was less dynamic in 1987, as the vitality shown in production was not felt on the labour market. Indeed, only 8,000 new jobs were created during the year, compared with 17,000 in 1986. The average number of people employed in the manufacturing sector in Quebec in 1987 was 573,000, only 1.4% higher than the previous year. This level of employment lags far behind the pre-recession level of 619,000. Few industries recorded substantial employment growth in 1987. With the exception of manufacturers of electrical appliances (+8,000), non-metallic mineral products (+5,000), furniture and fixtures (+5,000), metal products (+3,000) and the chemical industry (+4,000), most other industries made little contribution to employment growth. Some even recorded substantial losses, among them clothing (7,000), transportation

equipment (-12,000) and miscellaneous manufacturing industries (-3,000).

Graph 14



At $4.2 billion in 1987, business investment in the Quebec manufacturing sector was 14.4% higher than the previous year. Unlike 1986, when the increase in business investment was almost entirely attributable to the pulp and paper sector, a larger number of industries contributed to the gains made in 1987. Prominent among them were machinery and transportation equipment, with respective increases of 48.3% and 137.8% compared with 1986. The gain in transportation equipment was largely attributable to construction work on Hyundai's new automobile assembly plant in Bromont and the modernization of GM's facility in Boisbriand. Strongly boosted by ongoing construction work on Domtar's fine paper mill at Windsor in the Eastern Townships, the pulp and paper sector forged ahead, with capital investment totalling $1.2 billion

in 1987, compared with $1 billion last year. Among the other major manufacturing industries, substantial gains were also seen in metal products (+20%), petroleum products (+29.4%), furniture (+32.6%) and food and beverages (+19.4%).

Table 7

MANUFACTURING CAPITAL EXPENDITURE IN QUEBEC
major industrial groups

Group	$ million 1985	1986	1987	% change 1986/85	1987/86
Primary metals	919	552	524	-39,9	-5,1
Paper and allied products	688	1 023	1 154	48,6	12,8
Food and beverages	231	232	277	0,3	19,4
Chemicals	251	365	382	45,8	4,5
Transportation equipment	125	145	344	15,9	137,8
Textiles	74	72	83	-1,9	15,1
Printing, publishing and allied industries	56	83	69	48,6	-17,1
Other	1 051	1 164	1 325	10,8	13,8
TOTAL	3 395	3 636	4 158	7,1	14,4

Source: Statistics Canada.

Consumer goods industries

Food and beverages

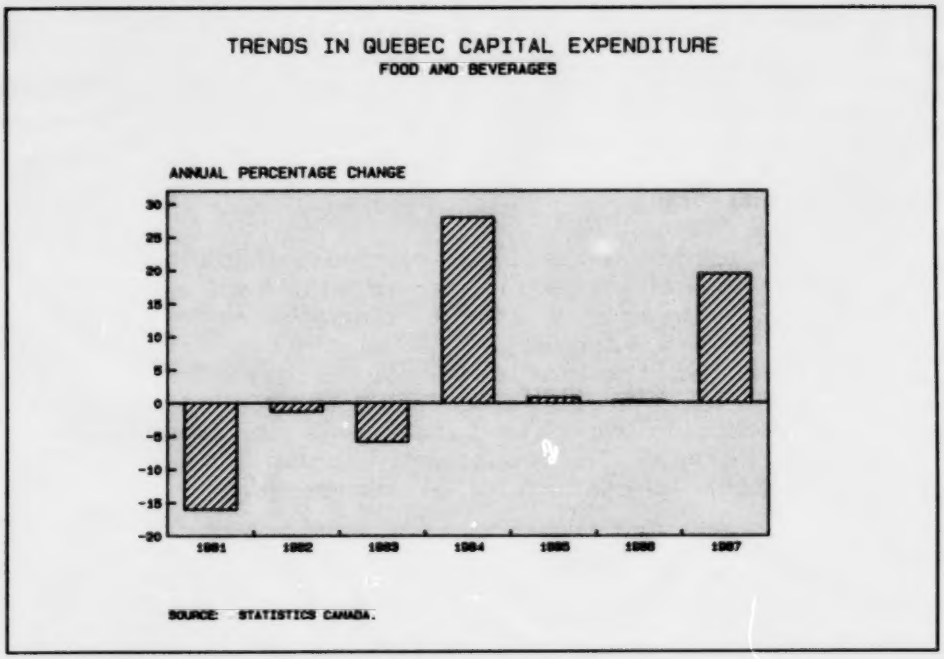
The Quebec food and beverages industry has the province's highest output. Benefitting from strong beverage sales and growing retail sales by food stores, particularly grocery stores and confectionery stores, food and beverage processing activities became somewhat steadier in 1987. Following a period of stagnation in 1986, the value of shipments rose by 3.9% this year, overtaking the 3.1% increase in the selling price index for this industry's products in Canada in 1987. Since the situation developed in much the same way in the rest of Canada, Quebec's share of Canadian food and beverage manufacturers' shipments, at 25.2% in 1987, remained virtually unchanged since 1986.

While strong domestic demand for Quebec food products contributed considerably to the recovery in the industry's output, weak exports substantially hampered its growth in 1987. Indeed, exports of food products loaded in Quebec, which absorb some 15% of the province's output, were down in 1987. Of major export products, fresh, chilled or frozen meat and dairy products fell back by 5.3% and 32.0% respectively. Other food products of less monetary value also saw declining exports, in particular dried vegetables (-50.0%) and cocoa and chocolate (-22.1%). Only exports of distilled and fermented alcoholic beverages made any significant advance this year, climbing from $68.0 million in 1986 (nine months) to $78.8 million in 1987 (nine months).

Thanks to faster output growth, the number of people employed rose noticeably in 1987, with the food and beverages industry as a whole adding 2,000 (+3.6%) since 1986. Although an average of 58,000 people worked in the industry in 1987, the number of jobs still remains well below the 71,000 high set in 1980.

Business investment was up substantially in 1987, reaching $277 million, almost 20% more than the previous year. Major increases were recorded in the dairy industry (+$34.7 million), biscuits and bakery products (+$14.0 million) and meat and poultry slaughtering and processing (+$8.6 million). These gains were, however, partially offset by declining investment in fish products (-$7.9 million) and distilleries (-16.6 million).

Graph 15



Tobacco industry

Benefitting from an increase in the selling price of its products, whose index moved up 5.4% in Canada, the Quebec tobacco industry posted healthy growth in 1987. Quebec producers, basically consisting of three major cigarette companies, Rothman's Benson and Hedges, Imperial Tobacco and R.J.R. MacDonald, reported shipments worth $889 million in 1987, a 12.0% increase in value over the previous year. Since the situation also steadied in Ontario, where the remainder of Canadian output is focussed, Quebec's share of Canadian shipments of tobacco products remained virtually unchanged at 52% in 1987.

While absorbing less than 2% of output, Quebec's exports of manufactured tobacco products also contributed to increased activity in 1987, reaching $15.8-million (nine months), compared with $8.2 million (nine months) in 1986.

For the third time in the past four years, business investment by Quebec manufacturers of tobacco products declined in 1987. Owing to a $5.3 million drop in expenditure on machinery and equipment, capital investment totalled $37.5 million in 1987, 11.8% less than the previous year.

Another feature of 1987 was the gradual transfer of Benson and Hedges Inc.'s head office employees from Montreal to York Mills, on the outskirts of Toronto, following a merger with Rothman's of Pall Mall Ltd. in December 1986.

Leather industry

Quebec's leather and allied products industry showed the impact of the removal of import quotas on mens' and boys' footwear (in effect since December 1, 1985) with further downward movement in 1987. Foreign products' share of the domestic market grew to over 70% in 1987, forcing Quebec manufacturers to reduce their output. Compounding this factor was the weak performance of footwear in department stores and specialty stores, which posted a 3.0% increase in sales in 1987.

Taking into account the 6.4% increase in the selling price of its products, real growth of shipments by Quebec manufacturers moved back by 2.1% in 1987. Since the situation worsened even more quickly elsewhere in Canada, Quebec's share of Canadian shipments of leather products advanced to 36.7% in 1987, compared with 35.3% in 1986. This phenomenon is primarily attributable to the fact that the mens' and boys' footwear sector, which is no longer protected by import quotas, is located mainly in Ontario. As imports of leather shoes for men and boys climbed more quickly than imports of footwear for women and girls, Ontario manufacturers' market share was reduced further. The leather industry will receive another blow in late 1988 when quotas on footwear for women and girls are totally lifted.

It is on the employment front that the situation of Quebec's leather manufacturers is the most worrying. In 1987, 2,000 jobs disappeared, representing more than 20% of employment in the industry. The declining activity was also reflected in falling investment in 1987: in all, capital expenditure dropped by some 30% to $2.7 million, its lowest level since 1977.

Furniture and fixture industry

The furniture industry performed very strongly in 1987. Benefitting from the boom in home construction, numerous real estate transactions on the resale market and growing penetration of the U.S. market, Quebec's furniture manufacturers had an excellent year. Indeed, furniture sales in Quebec were particularly strong in 1987, reaching $613.5 million, 17.7% up over the previous year.

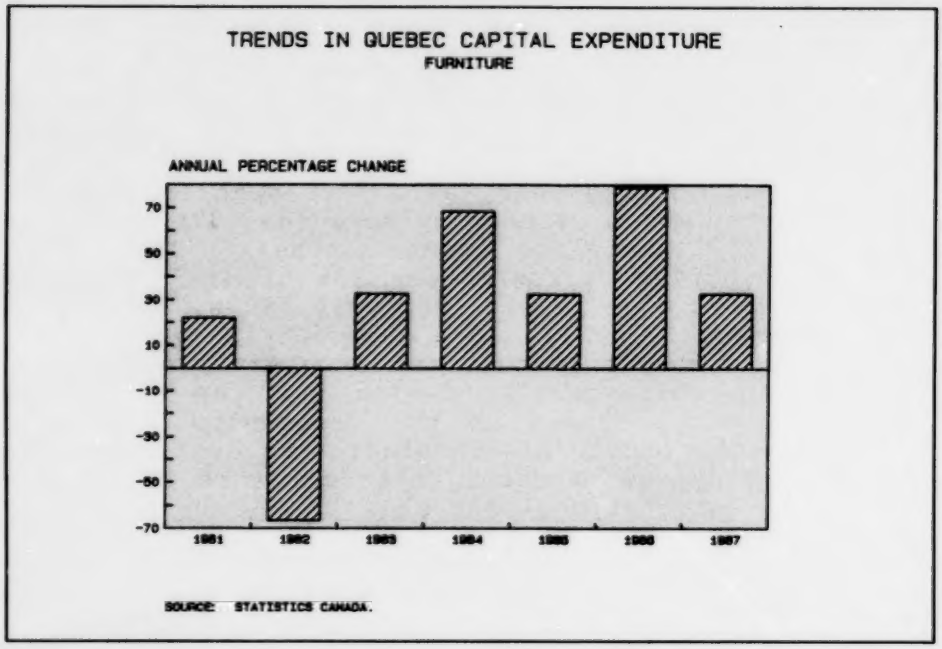
Rapidly increasing exports of furniture to the United States also contributed considerably to the industry's growth in 1987. More and more Quebec firms entered the U.S. market this year, as may be seen from furniture exports, which climbed by more than 30% over 1986 to reach $171.3 million (nine months). The Quebec industry exported approximately 15% of its output in 1987, compared with 10% in the early 1980s. This fast growth in foreign sales is largely attributable to the quality of Quebec's output, the industry's major reorientation with respect to design, and the favourable exchange rate. Thanks to the creativity of Quebec designers, the province's manufacturers are increasingly developing new products which cater to the expectations of international markets.

Quebec's manufacturers, who specialize primarily in dining room and bedroom furniture, increased their shipments by 14.4% in 1987. This growth, substantially greater than last year's, was all the stronger when one considers that the selling price index for furniture products only moved up by 4.6%.

Reflecting rapid growth in output, the number of persons employed in furniture manufacturing companies in Quebec rose substantially in 1987. Despite increased mechanization and the streamlining of production, 5,000 jobs were added since 1986, and the industry's employment level hit a high of 27,000.

Expenditure on modernizing equipment and acquiring new production facilities was very high in 1987. For the year as a whole, Quebec manufacturers invested a record $30.1 million, a marked 32.6% increase over last year. This capital investment allowed the industry to become more competitive and better meet the expectations of Canadian and international markets.

Graph 16



Clothing industry

Although still threatened by foreign competition, the Quebec clothing industry performed satisfactorily in 1987. The value of shipments from Quebec manufacturers rose by 5.1% during the year to $3.7 billion, thanks to strong clothing sales in stores and slower imports. Bearing in mind the 3.3% increase in selling prices for its products, the real growth in the industry's shipments was approximately 1.8%. But since growth was slightly faster elsewhere in Canada, Quebec's share of Canadian shipments moved from 61.4% in 1986 to 60.9% in 1987.

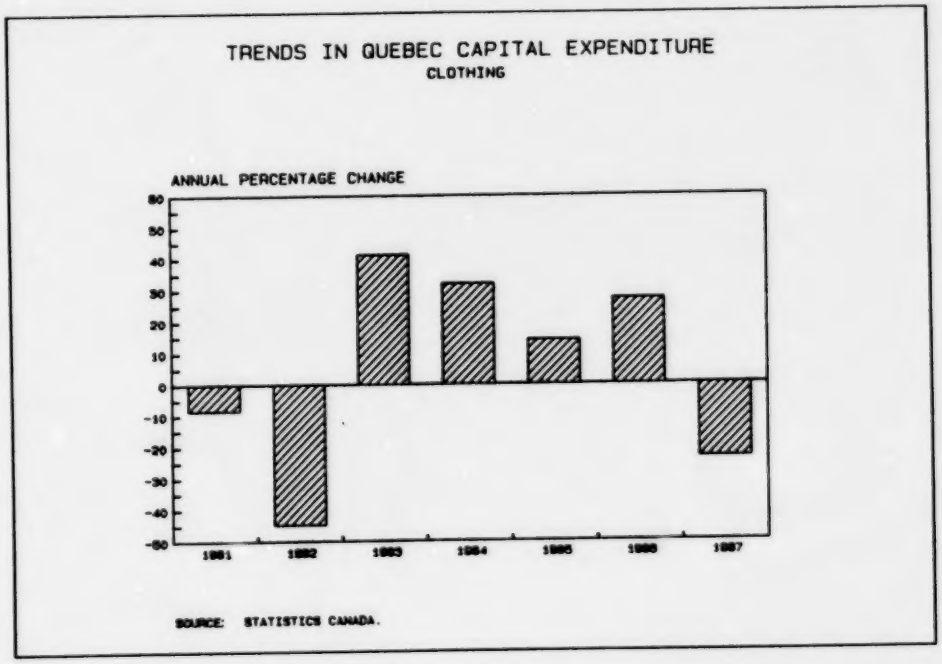
The base profits of clothing companies with assets of more than $10 million in 1987 were up 21.2% over last year at $103 million.

As in the previous year, clothing import penetration into Canada slowed considerably in 1987. Affected by

the renewal of the Multifibre Arrangement in 1986, which limits import growth to the rate at which demand rises, imports did not significantly increase their market share in 1987. Imports of major products, such as knitted and other outerwear, clothing accessories, hats, gloves and mitts, and other clothing, were up 10.1% in 1987, compared with 16% in 1986 and more than 30% in 1984-1985.

The clothing industry, the largest employer in the Quebec manufacturing sector, provided jobs for 69,000 people in 1987, a substantial 7,000 (-9.2%) fewer than the previous year.

Graph 17



Capital investment in the clothing industry was down considerably in Quebec in 1987. Having hit a record $19.7 million in 1986, capital expenditure totalled $15.1 million in 1987. Almost all of this decrease was attributable to the $4.4 million drop in spending on machinery and equipment in the mens' clothing sector.

Table 8

CONSUMER GOODS INDUSTRIES
shipments, employment and capital expenditure

Group	Shipments ($ million)		Employment ('000)		Capital expenditure ($ million)	
	1986	1987	1986	1987	1986	1987
Food and beverages	9 906	10 297	56	58	232	277
Tobacco	794	889	4	-	43	38
Leather	475	496	9	7	4	3
Clothing*	3 547	3 728	76	69	30	31
Furniture	1 047	1 198	22	27	23	30
Miscellaneous industries	N.A.	N.A.	19	16	438	487

Source: Statistics Canada.

Note: *Including knitting mills.

Resource processing industries

Wood industries

The introduction of a 15% surtax on Canadian lumber exports to the United States did not really affect Quebec's wood industries in 1987. While it did generate a slowdown in lumber exports and threaten the competitiveness of some producers, the surtax was almost totally absorbed by American buyers, allowing Quebec wood firms to maintain high profits in 1987.

Quebec, Canada's second producer and exporter of lumber after British Columbia, benefitted greatly from the construction boom in Quebec and the rest of the country, substantially expanding its activities in 1987. Quebec's wood firms pulled out all the stops last year, and the industry's capacity utilization rate rose from 83.9% in 1986 to 90.8% in 1987 (nine months). Thanks to the marked increase in demand for

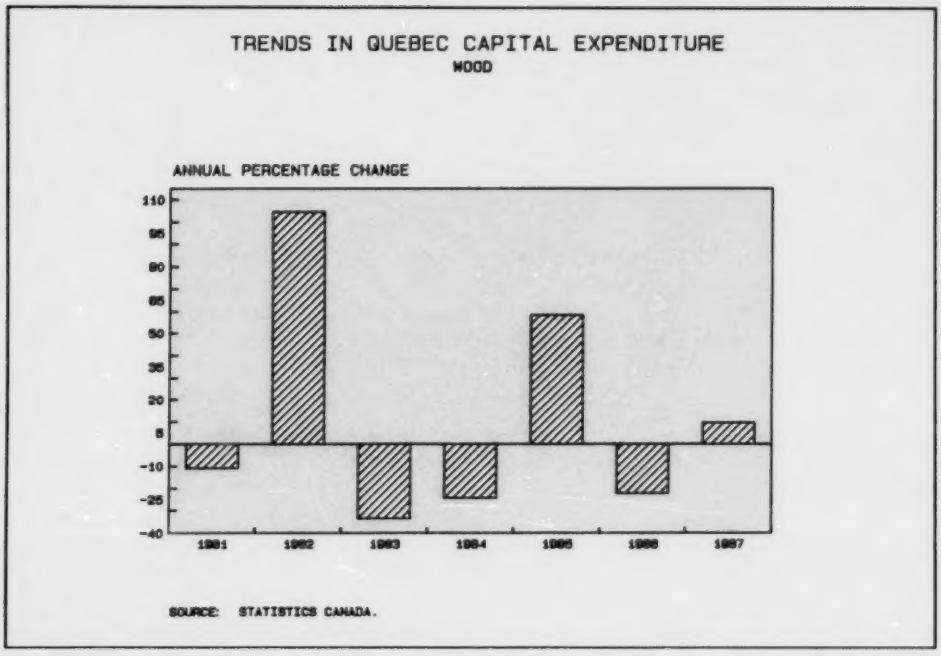
forest products, the value of Quebec shipments climbed by 13.5% in 1987. This performance was all the more remarkable since the selling price index for wood products only rose by 2.5%. Since shipments of forest products manufactured elsewhere in Canada rose at a similar rate, Quebec's share of Canadian shipments remained virtually unchanged at 22.0% in 1987. Reflecting strong demand, the output of lumber in Quebec, measured in volume, also increased this year, by some 2.2%.

While 1987 was very encouraging in terms of output growth, the employment picture was different. Indeed, the number of people employed shrank by 3.0% to 32,000.

U.S. demand for wood, which absorbs some 45% of Quebec's total wood output, weakened somewhat in 1987. While exports of wood from Quebec benefitted from expanding residential construction in the United States, the introduction of the 15% surtax checked their momentum this year. In all, Quebec lumber exports totalled $528.1 million (nine months) in 1987, compared with $566.3 million (nine months) the previous year.

The modernization of Quebec's wood industries was reflected in increased capital investment in 1987, which moved up 9.4% to $84.8 million. The entire gain in capital expenditure was attributable to purchases of machinery and equipment (+13.1%), with spending on construction down by 2.8%.

Graph 18



Paper and allied products industries

The Quebec pulp and paper industry had a very good year in 1987: world demand for paper was strong and prices have been rising substantially. Most Quebec mills operated at close to 100% capacity, the highest rate since 1980. Despite the increasing strength of the Canadian dollar against the U.S. currency, which was mostly felt during the last quarter, Quebec pulp and paper companies showed rates of return among their highest in there history. Quebec is one of the world's biggest producers of newsprint.

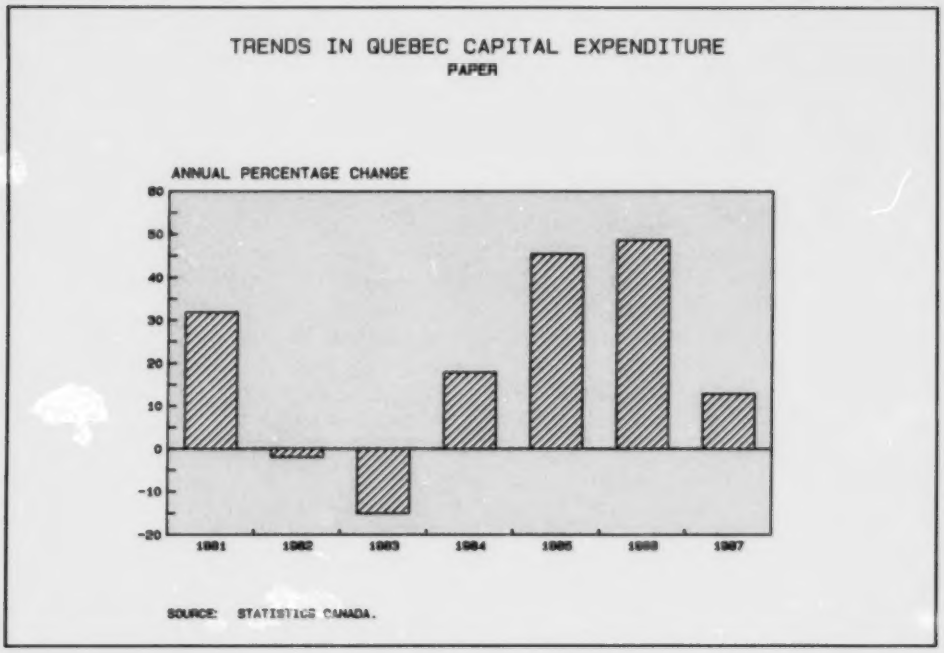
The value of Quebec pulp and paper industry shipments rose by 11.4% in 1987, reaching a new high of $7.2 billion. As in previous years, foreign demand played a prominent role in 1987. Quebec pulp and paper exports, which absorb more than 50% of the industry's output, remained steady this year, as consumption was strong and U.S. publishers built up their inventories.

While newsprint exports, accounting for over one-third of the industry's shipments, reached $2.25 billion (nine months), 5% higher than the previous year, exports of wood pulp and similar pulp rocketed up more than 30% to $394.2 million (nine months). Although they represent only 10% of total exports, it was pulp and paper exports to Europe which posted the largest increase in 1987, jumping from $307.0 million (nine months) in 1986 to $417.9 million (nine months) this year. This was the result of a marked improvement in Quebec paper mills' competitive position following the decline of the Canadian dollar against European currencies.

The spirited activity in the pulp and paper sector had an impact on employment in 1987. During the year, 4,000 new jobs were added, a substantial 10.3% increase since the previous year. But employment, standing at an average of 43,000 in 1987, still remains far below the pre-recession level of 50,000.

Numerous expansion and modernization projects for Quebec's pulp and paper mills took shape in 1987. In all, capital investment moved up from $1.02 billion in 1986 to $1.15 billion this year. The completion of construction work on a new fine paper plant by Domtar ($800 million) at Windsor in the Eastern Townships and the reopening by Cascades of ITT Rayonier's old pulp and paper mill in Port Cartier contributed particularly to this increase in investment.

Graph 19



Other features of 1987 were the sale of the Donohue paper mill, in which the Quebec government had a majority interest, to the Anglo-Quebec Maxwell-Péladeau consortium for $320 million.

Non-metallic mineral products

Quebec's non-metallic mineral products industry took advantage of the Canada-wide boom in residential and non-residential construction to substantially increase its output in 1987. The value of shipments rose by 11.4% last year to $1.67 billion, even though selling prices only moved up 3.7%. Demand for cement, crushed stone and clay products was particularly strong, as can be seen from the growth in shipments of 11.5%, 19.4% and 17.0% respectively. The industry as a whole in Quebec raised its capacity utilization rate from 73.1% in 1986 to 79.7% (nine months) in 1987.

Reflecting the increase in activity, the industry's employment level showed remarkable growth in 1987, regaining almost all the jobs lost over the past two years. Last year 18,000 people were employed in the industry, a considerable advance (+5,000) over the previous year.

Unlike the domestic market, foreign demand flagged somewhat in 1987. The main exports of non-metallic mineral products to the United States, accounting for over 15% of the industry's output, totalled $139.8-million (nine months) this year, compared with $149.2-million (nine months) last year. Among products exported, cement and concrete basic products and other non-metallic mineral products fell by $10.3 million (-20.3%) and $4.8 million (-9.6%) respectively (nine months). Only exports of abrasive basic products (+5.1%) and clay bricks, clay tiles and refractories (+18.2%) gained any ground.

After rising significantly in 1986, capital expenditure remained unchanged in 1987 at $66 million. During the year, increased investment by manufacturers of glass and glassware (+$1.68 million) and abrasives (+$3.3 million) were offset by declining investment from manufacturers of cement (-$1 million), concrete products (-$1.51 million) and other non-metallic mineral products (-$2.54 million).

Primary metal industries

Thanks to stronger world demand and higher metal prices, Quebec's primary metal industries had a good year in 1987. Benefitting from better market conditions, plants operated almost flat out during the year, substantially increasing their sales. Indeed, the value of shipments from the industry in Quebec hit a record $6.5 billion in 1987. Taking into account the 5.4% rise in selling prices, the real growth in Quebec shipments of primary metals was over 20.0%. This performance was all the more remarkable since elsewhere in Canada growth was limited to 5.0%. Quebec producers' share of Canadian shipments of primary metals moved up from 30.4% in 1986 to 34.4% in 1987.

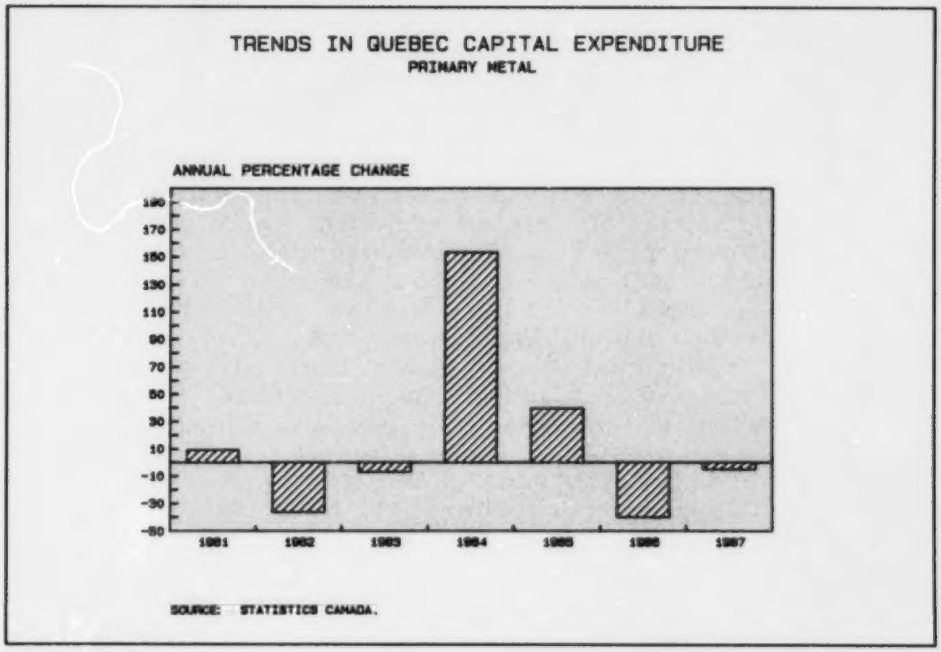
The aluminum industry put in a particularly spirited performance in 1987. Thanks to greater demand on world markets and the continued low level of inventories, spot prices for aluminum posted marked increases during the year, generating higher earnings for aluminum producers. Reflecting the recovery in world de-

mand, the value of aluminum shipments loaded in Quebec rose by some 20% in 1987 to $1.3 billion (nine months).

The steel industry also had a satisfactory year in 1987. After several years of slowdown, steel manufacturers improved their financial position somewhat through increased steel shipments combined with programs aimed at reducing operating costs.

Despite increased activity in primary metal industries, Quebec producers hesitated to speed up their development plans in 1987. Alcan announced that it would be proceeding with its plan to construct an aluminum smelter at Laterrière in the Saguenay region, at a cost of $750 million. In general, however, there were fewer announcements of construction projects in 1987 than in previous years. None the less, partly owing to the start of construction on a magnesium plant in Bécancour by Norway's Norsk Hydro at a cost of $400 million, business investment in primary metals totalled $524 million, down a mere 5.1% over 1986 but still far below the $918.5 million spent in 1985.

Graph 20



Petroleum and coal products

Having felt the impact of the collapse of world oil prices last year, the oil companies had a better year in 1987 in Canada. Most of them enjoyed greater profitability during the year thanks to stronger prices, and the base profits of Canadian companies with assets of more than $10 million rose by 22.5%.

In Quebec, where there are still three refineries, Shell and Petro Canada in Montreal and Ultramar at St. Romuald near Quebec City, the 8.5% increase in sales at service stations did not help the industry very much in 1987. During the year, the value of Quebec shipments of petroleum products remained virtually unchanged (+1.5%) at $3.3 billion, while Quebec's share of Canadian shipments in this industry rose from 16.1% in 1986 to 18.2% in 1987.

After several years of stagnation, the petrochemical industry in Quebec, currently being rebuilt in Montreal's east end, showed a great deal of optimism in 1987. Thanks to improved market conditions, higher prices and increased production capacity, the industry finally moved onto a profitable track. Several capital projects were announced during the year. On the one hand, Montreal-based Bitumar, in association with ELF Canada, a subsidiary of the French holding company ELF-Aquitaine, acquired Ultramar's abandoned facilities, where it will operate two polymer asphalt plants. On the other hand, having invested $45 million during the year to modernize and convert Gulf's old facilities, the petrochemical firm Kemtec announced expenditure of $100 million on its east-end Montreal facilities to produce cumene and paraxylene. The federal and provincial governments are to participate in this project by contributing $9.6 million each, for a total of $19.2 million, in the form of interest-free refundable loans. At the same time, Petromont continued its modernization program by investing some $20 million in its Varennes ethylene plant in order to increase its propane supply.

Although these projects as a whole guarantee the survival of Quebec's petrochemical industry, its long-term growth could be tied to the completion by Soligaz (a consortium consisting of Soquip, Gaz Métro and SGF) of a project involving adapting the existing Sarnia-Montreal gas pipeline so that it can convey to Montreal the gas liquids used by the petrochemical industry.

Table 9

RESOURCE PROCESSING INDUSTRIES
shipments, employment and capital expenditure

Group	Shipments ($ million)		Employment ('000)		Capital expenditure ($ million)	
	1986	1987	1986	1987	1986	1987
Wood	2 636	2 992	33	32	78	85
Paper	6 469	7 208	39	43	1 023	1 154
Primary metals	5 114	6 451	32	34	552	524
Non-metallic minerals	1 501	1 671	13	18	66	66
Petroleum	3 272	3 321	-	4	81	105

Source: Statistics Canada.

Capital and industrial goods industries

Plastic products industry

The Canadian plastic products industry, heavily concentrated in Ontario owing to the major presence of automobile manufacturers, maintained its fast pace in 1987. Having benefitted particularly from the developing needs of the automotive industry (which continues to be one of the fastest growing markets for plastics), the increasingly widespread use of plastic packaging products and the strength of the non-residential construction sector, this industry enjoyed a high growth rate in 1987. During the year, most plastic products firms ran at close to maximum production capacity, with the industry utilization rate climbing to an average of 95.4% (nine months), compared with 93.1% last year.

Quebec, with more than 600 firms, mostly small businesses averaging 30 employees, was no exception to this good performance. The province's producers, some 70% of whom are concentrated in the Montreal area,

enjoyed rapid expansion in 1987. Like producers in Canada as a whole, they increased their shipments, which reached $1.1 billion in value (+11.5%). This rise reflects major growth in volume, while prices moved up only 3.8% according to the Canadian industrial selling price index. Quebec's share of Canadian shipments of plastic products thus remained unchanged at 24.6% in 1987.

On the other hand, while the plastic products industry continued to advance in 1987, its employment level in Quebec drew back by 9.1% during the year. With an average of 20,000 in 1987, the industry employed 2,000 fewer people than in 1986. This phenomenon is basically attributable to the substantial increases in capital investment since 1984 to acquire higher-performance machinery, with the accompanying reduction in manpower requirements, and to the heavier concentration of companies. In 1987, Quebec's plastics producers invested $48.5 million, almost equalling last year's record of $51.9 million.

Textile industry

Thanks to slow import growth, Canada's textile industry saw its sales and output progress well in 1987. Its activities were also profitable during the year, as may be seen from the base profits of Canadian textile firms with assets of more than $10 million, which reached $857 million, a substantial 30% above the previous year's figure.

In Quebec, where more than one-half of Canadian production is concentrated, textile processing activities recorded an encouragingly spirited performance in 1987. The value of Quebec shipments rose by 8% in 1987 to $3.07 billion. Considering the low increase in prices of some 2.4%, according to the Canadian industrial selling price index, the industry's real growth was more than 5%, its highest since 1983.

While increased demand from manufacturing industries whose activities are downstream from textile processing, namely the clothing and automotive industries, played an important role during the year, the slower penetration of imports from developing countries was the main factor behind this group's growth in 1987. This phenomenon was primarily attributable to the stricter import controls provided for in bilateral agreements under the Multifibre Arrangement. Imports of textile products clearing customs in Quebec, which accounted for a growing share of the Canadian market to the detriment of local manufacturers, were up 9.0%

in 1987, a much lower rate than those recorded in recent years. During this period, whereas a number of the main imported products posted sizeable gains, among them cotton broad woven fabrics (+40.5% or $41.2 million), man-made fibre broad woven fabrics (+24.8% or $19.7 million) and man-made fibre yarn and thread (+14.2% or $16.1 million), these were largely offset by the decline in wool and hair broad woven fabrics (-11.8% or $5.6 million) and blended fibre broad woven fabrics (-21.2% or $34.8 million). In all, the value of imports of textile products clearing customs in Quebec climbed from about $787.5 million in 1986 to $861.1 million in 1987 (nine months).

This brighter picture, which allowed Quebec manufacturers to maintain their market share in Canada, had an impact on employment in the industry in 1987. During the year, the number of persons employed in the Quebec textile industry rose by 1,000 to an average of 32,000, 3.2% above the 1986 figure of 31,000. This performance was all the more encouraging since elsewhere in Canada employment levels were down 6.5% and Quebec's share of Canadian employment moved up from 50% in 1986 to 55.2% in 1987.

Modernization work translated into annual business investment of some $83.1 million in 1987, a 15.1% advance over 1986. Sizeable gains were recorded by manufacturers of fibre and yarn and man-made fabrics (+$2.3 million or +13.6%), miscellaneous textile industries (+$5.6 million or +26.7%) and carpet, mat and rug manufacturers (+$3.1 million or +38.5%). In the latter case, the increase was largely attributable to Peerless Carpet's investment of $13.1 million in the modernization and expansion of its Acton Vale plant. While this performance enabled Quebec to increase its share of Canadian investment from 28.9% in 1986 to 32.8% in 1987, this is still substantially below its share of output, which is over 50%.

Printing, publishing and related industries

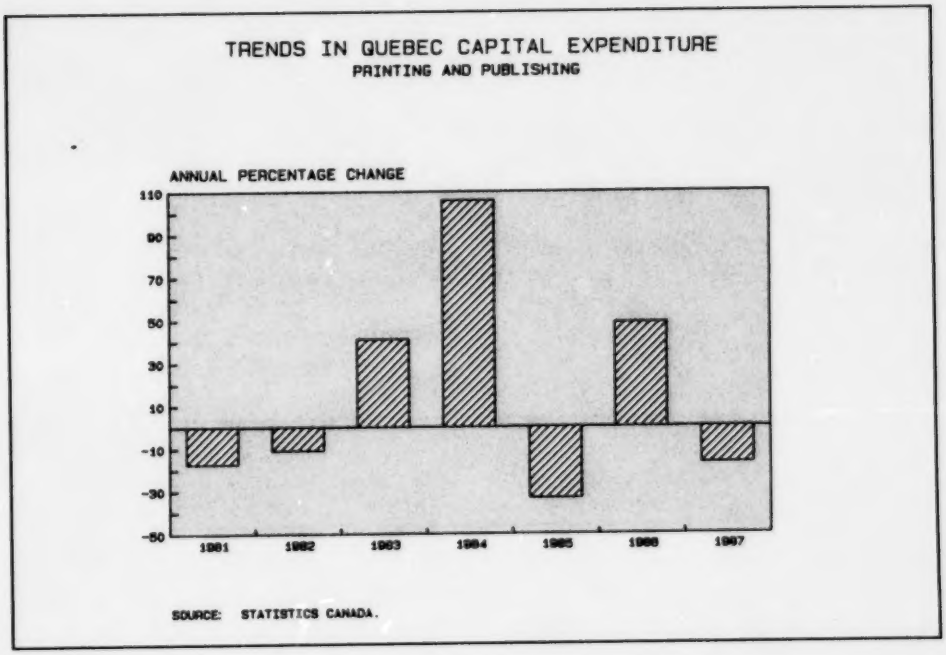
After several years of rapid expansion, Quebec's printing, publishing and allied industries grew somewhat more slowly in 1987. During the year, although the value of shipments hit a new high of $3.12 billion, up 8.1% over 1986, real growth was less than 3% when the 5.7% price increase according to the Canadian industrial selling price index is taken into account. Since Canadian manufacturers as a whole posted similar performances, Quebec's share of Canadian shipments of printed matter remained steady at 28.1% in 1987.
But this more moderate rhythm, which was moreover re-

flected in a slight rise in the capacity utilization rate, did not prevent the industry from increasing its sales and enjoying very high profits during the year. Indeed, the activities of the printing and publishing sector remained very profitable in 1987, as may be seen from the profits of Canadian firms with assets over $10 million, which rose by 14.6% since 1986 to $1.12 billion.

Employment in the publishing and printing industry, the fourth largest employer in Quebec's manufacturing sector behind food and beverages (58,000), clothing (69,000) and electrical products (45,000), increased by 4.8% in 1987. From 42,000 in 1986, the number of persons employed in 1987 rose to an average of 44,000, the industry's highest employment level ever.

Having invested $82.6 million in 1986, compared with an average of $43.1 million over the past 10 years, Quebec publishing and printing firms spent $68.5 million in capital investment in 1987, primarily to acquire higher-performance machinery and equipment.

Graph 21



Metal fabricating industries

Quebec's metal fabricating industries put in a considerably stronger performance in 1987. Boosted by spirited investment in the manufacturing sector and public utilities, construction of numerous office buildings and lively movement in housing starts, the industry enjoyed a high output growth rate. During the year, most manufacturers increased their capacity utilization rate, with the industry average moving up from 73.3% in 1986 to 75.8% in 1987 (nine months).

As demand for metal products was very strong in 1987, the value of Quebec shipments increased by 15.9% over last year, reaching $4.4 billion. As selling prices rose by only 3% according to the Canadian industrial selling price index, this performance was all the stronger, representing real growth of some 13.0%.

Quebec firms increased their share of Canadian shipments of metal products from 26.6% in 1986 to 27.7% in 1987.

The foreign market, undeniably important since it absorbs more than 10% of the industry's shipments, also contributed to growth in 1987. Quebec manufacturers increased their foreign sales by 6.7%, primarily to the United States. Among the main export products, substantial increases were recorded in iron and steel pipes and tubes (+46.3%), steel plate, sheet and strip (+46.3%) and metal products (+30.6%). At the other extreme, exports of metal sections and iron and steel wire and wire rope declined by 20.8% and 10.2% respectively since last year.

The sector's good sales performance also affected employment in 1987, with 38,000 people employed in Quebec, an increase of 8.6%. While this level is not a high, it brings the industry close to its 1981 record of 41,000.

Reflecting the strong activity during the year, capital projects were numerous in 1987, primarily in the modernization of machinery and equipment. The industry's capital investment in Quebec totalled a record $107.3 million, more than 20% higher than last year. This excellent performance enabled the Quebec industry to almost double its share of Canadian capital expenditure, which now stands at 21.9%. While encouraging, this is still less than its share of output, estimated at close to 27%.

Machinery

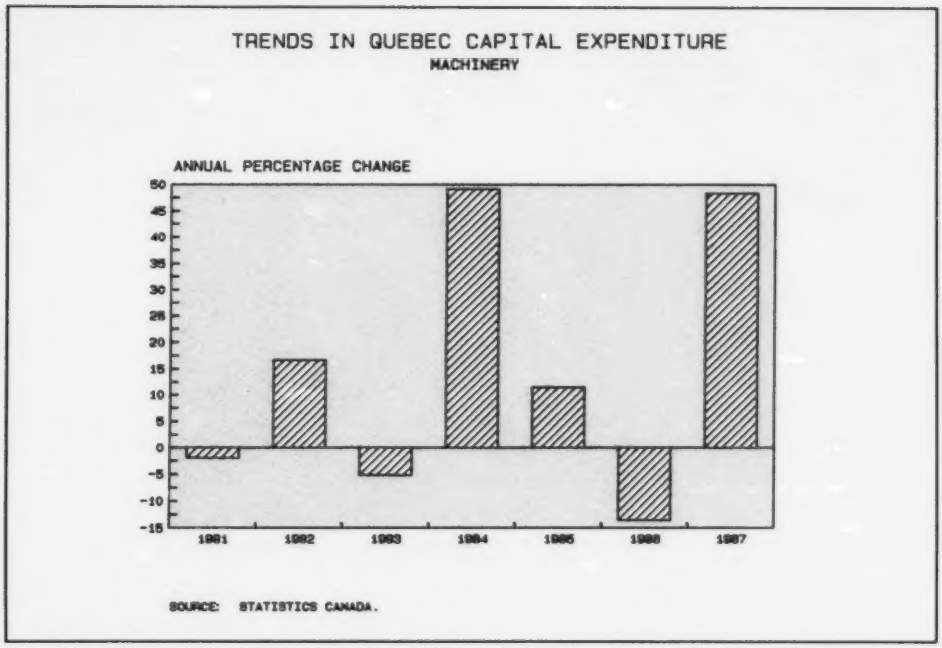
Quebec's machinery industry benefitted from a very favourable situation in 1987. Under the impact of renewed investment by Canadian firms, stronger activity in the mining and petroleum sectors and increased foreign sales, demand for machinery grew considerably during the year. The industry saw the value of its shipments increase by a substantial 14.7% in 1987, placing it among the top manufacturing industries in the province. Taking into account the low rise in machinery prices, approximately 2.9% according to the Canadian industrial selling price index, the industry's real growth reached the impressive level of close to 12.0%. Thanks to this strength, Quebec manufacturers were responsible for 15.7% of Canadian machinery industry shipments, compared with 15.1% last year.

Foreign sales, which are important as they absorb approximately one-third of the industry's shipments, also contributed to the sector's growth in 1987. Indeed, Quebec machinery manufacturers increased their shipments by some 13% in 1987. A sizeable portion of this growth was attributable to exports of office machines and equipment, which rocketed from $131.1-million (nine months) in 1986 to $203.4 million (nine months) in 1987. Good results were also seen in exports of machinery for the textile industry (+$2.8 million or +13.6%), woodworking machinery (+$3.5 million or +29.9%) and other industrial machinery (+$12.3 million or +34.4%). Among the other main export products, however, decreases were seen in mining, oil and gas drilling machinery (-$21 million or -28.8%) and machinery for the pulp and paper industry (-$9.8 million or -22.3%).

The strong activity was also reflected in marked employment growth (+12.5%) in 1987, with the number of workers hitting a high of 18,000. This performance was all the more encouraging since employment in the other regions of Canada remained virtually unchanged, allowing Quebec to increase its relative share of employment in the Canadian machinery industry as a whole to 23.4% in 1987 from 21.1% in 1986.

Quebec firms considerably increased their capital expenditure in 1987, to a record total of $123.7 million, a jump of almost 50% since the previous year. Manufacturers of office and business machines contributed particularly to this good performance by increasing their investment from $56.2 million in 1986 to $101.9 million in 1987, primarily to acquire more modern equipment.

Graph 22



Transportation equipment

The transportation equipment manufacturing industry was hard hit by the temporary closure of GM's automobile assembly plant at Boisbriand in 1987. Indeed, primarily owing to the interruption of production for some three months at the GM plant, the value of shipments in the industry fell by 9% since last year, to $4.8 billion. The many difficulties experienced by Quebec shipyards, characterized by practically empty order books, also played a role in the group's poor performance during the year.

The weak activity in 1987 was reflected in a significant decline in the industry's employment level during the year. The number of workers fell from 47,000 in 1986 to 35,000 in 1987, the largest drop in any Quebec manufacturing industry. This performance was all the more lackluster since elsewhere in Canada employment in transportation equipment manufacturing plants

remained steady, reducing Quebec's share of total Canadian employment from 20.0% in 1986 to 14.8% in 1987.

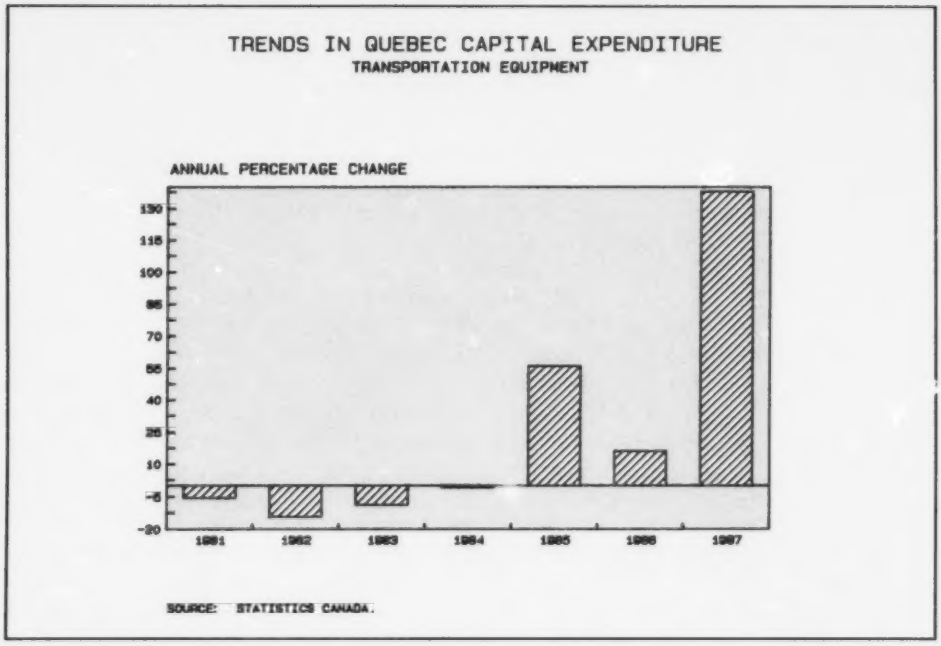
It was on the investment front that the industry's performance was the most heartening in 1987. Indeed, capital expenditure by Quebec manufacturers totalled a record $344.4 million during the year, close to $200 million more than in 1986. Among major capital projects completed or in progress in 1987 were:

- construction of an automobile assembly plant in Bromont by the Korean firm Hyundai at a cost of $325 million, where the first cars should roll from the assembly lines in December 1988. When the plant reaches full production in 1991, it will employ 1,500 people.

- Modernization of GM's automobile assembly plant in Boisbriand at a cost of $450 million. GM's investment consists of $300 million to build an ultramodern paintshop, which should begin operation in fall 1989, and $150 million to install new assembly equipment for the front-wheel drive Chevrolet Celebrity. This modernization project was financed from federal and provincial funds, with each government providing a $110 million interest-free loan repayable only in 30 years.

- The French firm Fonderies Montupet also announced investment of some $110 million in a plant for manufacturing aluminum automobile cylinder heads and manifolds.

Graph 23



The transportation equipment industry, more than 70% of whose shipments are exported abroad, benefitted from good foreign demand in 1987. With the exception of exports of passenger automobiles and chassis, which fell by a substantial 56.4% compared with last year, primarily due to the temporary closure of GM's Boisbriand plant for modernization, most of the other main export products enjoyed increases in 1987. In the railroad sector in particular, exports of railway rolling stock benefitted from Bombardier's final deliveries of cars for the New York metro. In all, shipments rose by 11.5% from $286 million in 1986 (nine months) to $318.5 million in 1987 (nine months). In the aircraft industry, exports of aircraft engines and parts and aircraft assemblies, equipment and parts also had a good year in 1987, with their value increasing by 20.5% and 6.6% respectively since 1986. Noteworthy in the sector was the excellent performance of aircraft manufacturer Canadair, which had its best year ever. Having streamlined its operations and

adopted a new marketing policy, Canadair moved onto a profitable track in 1987 and is in good position to ensure future gains.

For Quebec's transportation equipment manufacturers, 1988 looks promising, as several major production contracts were awarded to Quebec firms during the year:

- Bombardier received a $60 million contract to manufacture monorails (72 cars) for Walt Disney World in the United States.

- Bombardier obtained a $45 million contract from Boston's Massachusetts Bay Transportation Authority to build 40 suburban railway cars and related parts.

- Bombardier won a major $101 million contract to build 50 diesel electric locomotives for Nigeria, primarily through financing from the Export Development Corporation (EDC), which provides for a direct loan of 85% of the amount to the Nigerian government.

- Héroux, a Longueuil manufacturer specializing in the design, production, maintenance and overhaul of landing gear, won a major contract from the U.S. army to build landing gear for 250 KC-135R air tankers. The contract, worth $88 million, will be spread over five years.

- Canadair concluded a major $410 million contract with French and German partners to sell the Cl-289 aerial reconnaissance system, its largest export ever. This contract should generate 200 jobs with the St. Laurent aircraft manufacturer.

Electrical and electronic products industries

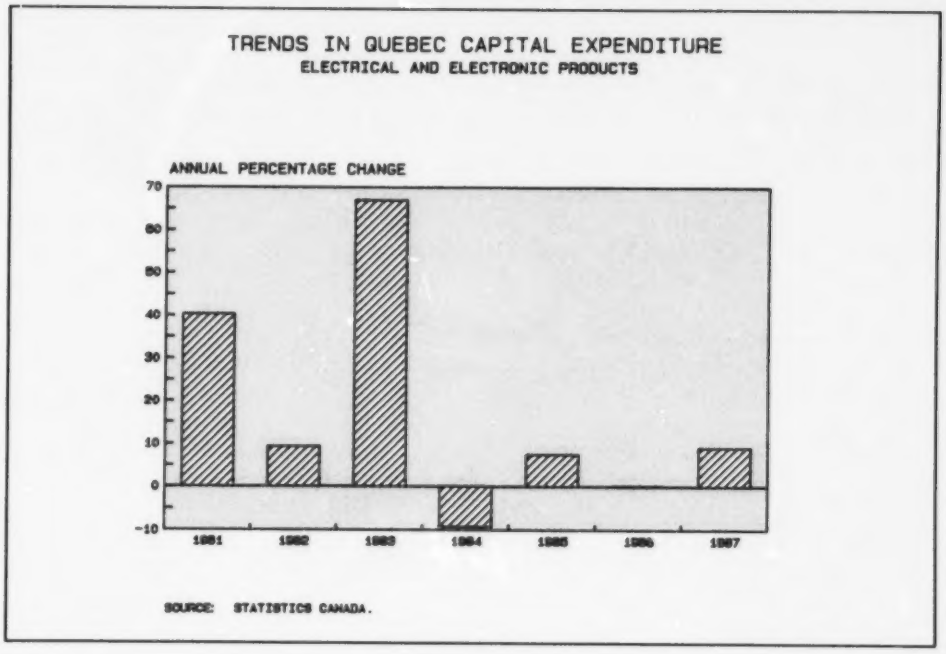
Activity in Quebec's electrical and electronic products industries, heavily concentrated in the manufacture of telecommunications equipment, was not that strong in 1987. The value of Quebec shipments rose by only 4.6% during the year to $3.3 billion. Taking into account the 1.8% price increase in this industry, real growth was less than 3% in 1987. As a slowdown in output was also seen elsewhere in Canada, Quebec's share of total Canadian shipments of electrical and electronic products remained steady at 24.3% in 1987.

The recovery in foreign sales was one of the few positive factors for the industry during the year. In-

deed, except for exports of business communications equipment, which fell 10.4% to $244.7 million (nine months), most other export products showed sizeable gains. A case in point was electronic tubes and semi-conductors, whose exports rocketed from $273 million (nine months) in 1986 to $520.9 million (nine months) in 1987. It was on the job creation front, however, that the group's performance was the most striking. Indeed, the low output grow had no negative impact on employment levels in the industries in 1987. On the contrary, the number of workers hit an average of 45,000, a marked increase of approximately 8,000 over last year.

Quebec's electrical and electronic products manufacturers increased their capital expenditure by 9% in 1987, primarily to purchase machinery and equipment. Capital investment totalled $167.2 million this year, compared with $153.4 million last year. During this period, increased investment was recorded by manufacturers of energy wire and cable (+25.8%), lighting fixtures (+34.1%), telecommunications equipment (+8.4%) and miscellaneous electrical products (+46.8%). Only investment in the industrial electrical equipment industries declined, moving down to $8.5 million in 1987 from $11.3 million in 1986.

Graph 24



Chemical industry

Quebec's chemical industry put in a good performance in 1987, enabling manufacturers to increase their output and post high profits during the year. Under the combined impact of strong sales of industrial chemicals, the growing use of plastic products and the more than 10% increase in retail sales of pharmaceuticals, medicines and cosmetics, the value of shipments hit a high of $4.4 billion in 1987, 8.6% above last year's level. Taking into account the increase in product selling prices, up a mere 2.7% since 1986 according to the Canadian industrial selling price index, the sector's real growth was approximately 6%. This performance meant Quebec manufacturers accounted for 23% of Canadian shipments of chemical products.

It was on the job front that the industry's performance was the most remarkable in 1987, with its employment level moving up 15.4% to 30,000. This large

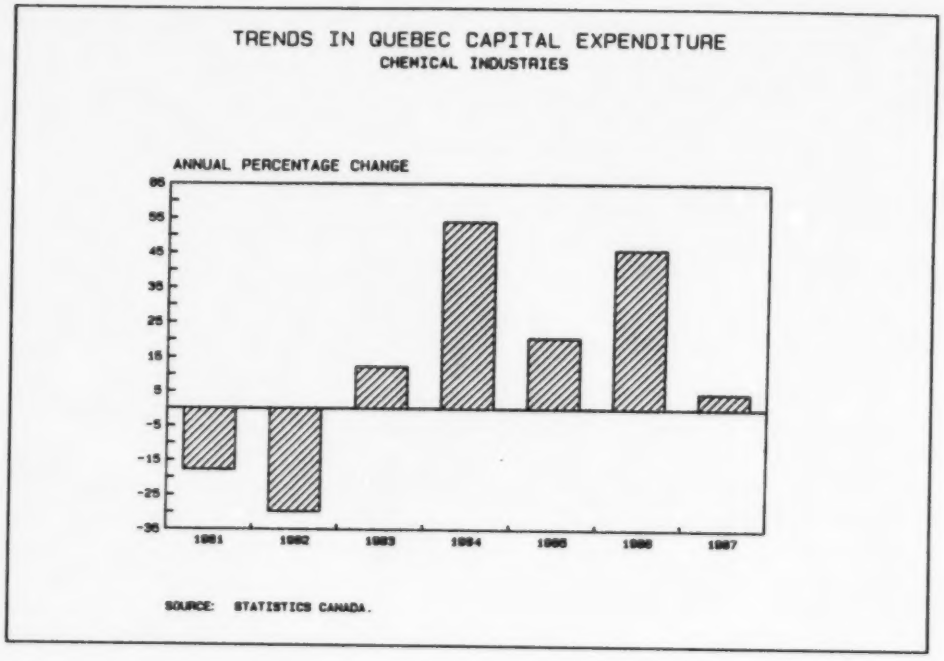
influx of new workers brings the industry close to its record, set in 1980, of 33,000 persons employed and means that Quebec accounts for close to one-third of all employment in the Canadian chemical industry, or substantially more than its 23% share of shipments. This is partly attributable to the fact that Quebec lacks certain high-productivity industries, such as the agricultural chemical products sector, and to its lower productivity in most other industries.

The weakness of exports was a disappointment in 1987. Foreign sales, which absorb some 20% of shipments, did not contribute to the industry's growth during the year. On the contrary, most of the main export products showed a decrease, among them metallic salts of inorganic acids (-3.8%), industrial chemicals and explosives (-31.6%) and biological and immunological products (-17.7%).

After three straight years of strong growth, capital expenditure in Quebec's chemical industry slowed down considerably in 1987.

During the year, Quebec firms spent $381.6 million, a mere 4.5% more than last year, compared with an average annual growth rate of over 40% between 1984 and 1986. This moderate figure is largely attributable to plummeting capital investment by manufacturers of plastics and synthetic resins, which dropped almost 37% from $72.6 million in 1986 to $45.8 million in 1987. Among manufacturers of drugs and pharmaceuticals, although several firms waited until the House of Commons adopted Bill C-22 on pharmaceutical patents before finally launching their investment programs, capital expenditure was up substantially in 1987 at a total of $43.4 million, compared with $29.5 million last year. Two major capital projects in 1987 in the pharmaceutical industry were Ayerst Laboratories' investment of some $30 million to modernize their pharmaceuticals plant in St. Laurent and Squibb Canada's start of work on a $14 million project to expand its research centre in Montreal.

Graph 25



With the adoption of Bill C-22 on pharmaceutical patents, which grants innovative firms absolute protection for 10 years on discoveries of new patent medicines, capital projects should become even more numerous over the next few years, particularly in the Montreal area, where a large portion of Canada's research activities is concentrated. Indeed, the Canadian pharmaceutical industry has undertaken to raise its share of earnings reinvested in research and development from its current level of 4.9% to 8-10% in 10 years.

Table 10

CAPITAL AND INDUSTRIAL GOODS INDUSTRIES
shipments, employment and capital expenditure

Group	Shipments ($ million)		Employment ('000)		Capital expenditure ($ million)	
	1986	1987	1986	1987	1986	1987
Rubber and plastics	990*	1 104*	22	20	77	84
Textiles	2 836	3 077	31	32	72	83
Printing	2 887	3 122	42	44	83	69
Metal fabricating	3 775	4 376	35	38	89	107
Machinery	1 144	1 312	16	18	83	124
Transportation equipment	5 328	4 840	47	35	145	344
Electrical products	3 176	3 323	37	45	153	167
Chemicals	4 063	4 411	26	30	365	382

Note: *Excluding rubber industry.

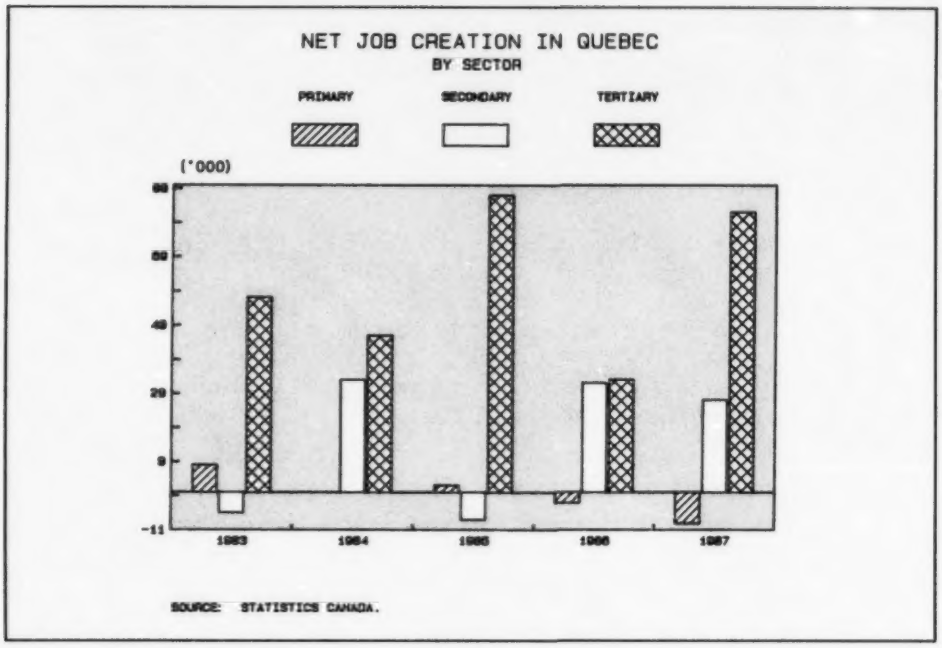
Source: Statistics Canada.

TERTIARY SECTOR

The tertiary sector, which includes numerous very varied services, namely transportation, communications and other utilities, trade, finance, services and public administration, is by far the most important in Quebec. In 1987 it accounted for more than two-thirds of real gross domestic product and 71.3% of total employment in the province. This sector expanded rapidly in 1987, with its real GDP rising by 3.8%. Several factors were behind this spirited performance, among them the exceptional strength of the residential market, which reached unprecedented heights this year, higher electricity exports to the United States, and strong consumer spending.

The strong activity was also reflected in a marked increase in jobs. In all, 82,000 additional workers found employment in the various industries in the sector, which thus accounted for more than 80% of all new job creation in Quebec. This gain was largely attributable to communications (+10,000 jobs) and finance, insurance and real estate (+14,000).

Graph 26



Transportation, communications and other utilities

Quebec's public utilities sector, consisting of transportation and communications industries and other utilities, expanded rapidly in 1987. Indeed, owing to the vigorous economy, reflected in a marked increase in activity in the transportation and communications sectors, and the growing penetration of electric power exports to the United States, real GDP grew by 6.1% in 1987, marking the fifth straight year of growth. In the case of transportation, trucking firms and air carriers in particular benefitted considerably from the recovery in manufacturing and mineral shipments and substantially increased their sales. Among Quebec's public utilities, which include Hydro Quebec, the rapid output growth was primarily attributable to increased power exports to New England, which went from $41.7 million in the first nine months of 1986 to $159.1 million for the same period in 1987. Added to

this was a growing number of users of electricity on the domestic market thanks to strong residential and industrial construction in 1987.

Unlike the previous four years, during which capital projects had slowed down considerably, expenditure in the transportation, communications and other utilities group recovered strongly in 1987. Overall, capital investment rose by a substantial 21.1% from $2.9 billion in 1986 to $3.5 billion in 1987. Almost all of this $600 million increase was attributable to the strong growth in investment by Hydro Quebec. Indeed, having experienced a marked decline since the completion of Phase I of James Bay, investment in electricity rallied considerably in 1987 to reach approximately $1.9 billion, some $440 million higher than its 1986 level. Massive investment is also planned in the next few years, with construction of the high technology equipment required for the period from 1989 to 1995 and the upgrading of the electrical distribution service calling for major expenditures. All fields of activity posted increases, particularly electric power transportation with the start of construction work on an $850 million line between James Bay and the Eastern Townships.

Investment in the transportation and communications sector, while more modest, also rose substantially in 1987. On the one hand, thanks to massive purchases of machinery and equipment for the cable and telegraph networks and high spending on construction in the telephone systems, total capital expenditure in communications was up 14.2% in 1987 to $871.5 million. On the other hand, with increased investment in air transportation (+$24.8 million), urban and intercity transportation (+$25.1 million) and marine transportation (+$21.4 million), total capital expenditure in transportation hit $560.9 million, 16.6% more than in 1986.

Another major event in 1987 was the privatization of Teleglobe Canada, a Crown corporation with the monopoly of overseas telephone transmissions, to Montreal-based Memotec Data, a firm specializing in electronic products and data communications.

Unlike the previous year, the increased activity in the public utilities group had an impact on employment in 1987, with the number of workers rising by 6.4% over 1986. While this performance was excellent, it concealed some major differences. Indeed, all jobs created in 1987 were attributable to the communications (+10,000) and transportation (+5,000) sector,

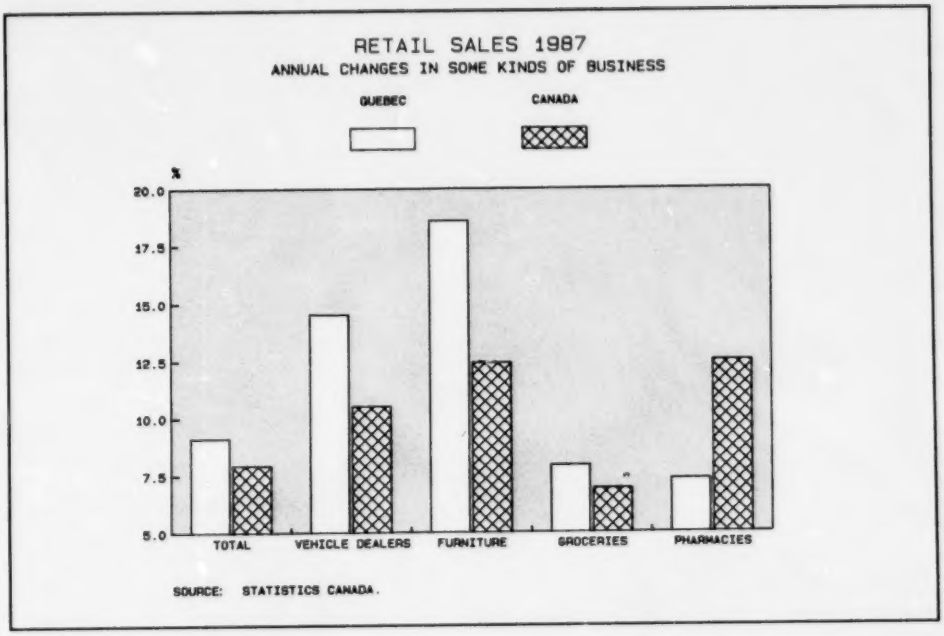
whereas the electric power, gas and water group lost 2,000 jobs, equivalent to a 7.1% drop.

Trade

As in the previous year, Quebec's trade sector experienced strong growth in 1987 and was one of the most dynamic components in the economy. Thanks to the increase in disposable personal income, the low rise in interest rates and greater consumer confidence in the economy, consumer spending remained very firm in 1987. Overall, the real GDP of the trade sector, which includes retail and wholesale trade, climbed by 8.7%, its best performance since 1983, giving the sector the highest output growth of any economic sector in 1987.

Retail sales in Quebec totalled $38.9 billion in 1987, a marked increase of 12.6% over 1986. By far the majority of types of trade increased their sales in 1987. Motor vehicle dealers' sales, which account for more than 20% of total retail sales in Quebec, moved fast in 1987, continuing to advance for the fifth year in a row, and rising by 19.3% to $8.2 billion. Good results were also recorded in sales of household appliances (+37.7%), furniture (+17.7%) and hardware products (+24.2%), which all benefitted considerably from the boom in home construction. The food sector also played a dominant role in the advance of retail sales in Quebec, with sales in grocery stores, confectionery stores and miscellaneous items up by 28.9%.

Graph 27



On the other hand, while the total volume of sales rose substantially, the number of persons employed remained quite steady in 1987, with the creation of 6,000 jobs, a mere 1.2% more than in 1986.

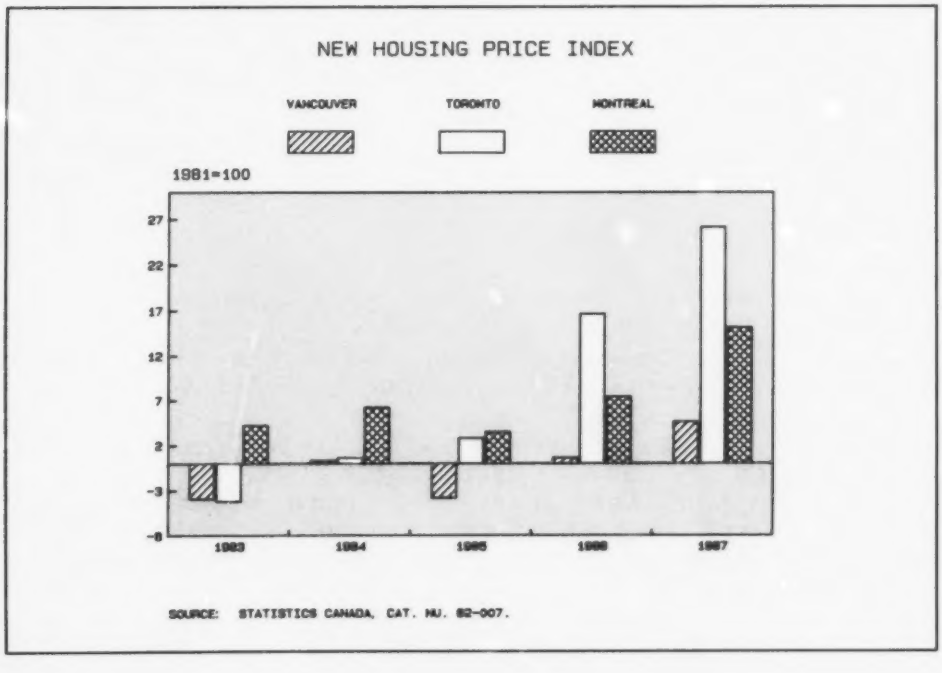
The trade sector spent $172.6 million on building construction in 1987, a substantial increase of more than 40% over last year. Capital expenditure on machinery and equipment also increased, albeit more modestly, reaching $336.6 million in 1987, compared with $300 million the previous year.

Finance, insurance and real estate

The finance, insurance and real estate sector posted exceptional performance in 1987, establishing new records. Overall, real GDP climbed by 4.5% in this fifth straight year of growth.

The housing market was one of the most dynamic components in 1987. Indeed, this was one of the most fruitful years the Quebec residential real estate market had seen for a long time. While the number of housing starts shattered the all-time high set in 1976, a fever of speculation took hold of the resale market. In the first months of the year, in particular, the number of houses sold and the selling prices of these houses rose very quickly. Overall, although conditions settled down somewhat in the second semester, the number of properties sold shattered all records in 1987. The booming activity was also much in evidence on the employment front, with 9,000 additional workers joining the ranks of insurance and real estate agencies in 1987, representing a staggering gain of more than 20% over 1986.

Graph 28



As in the previous two years, real estate operators carried out some major building construction projects in 1987. In all, these projects translated into

expenditure reaching a high of $1.3 billion, a marked 42.8% increase over 1986. Added to this investment was expenditure on machinery and equipment totalling $187.8 million in 1987.

For financial institutions, 1987 was also marked by rapid, albeit more moderate, expansion. Indeed, thanks to good conditions in the real estate sector and firm consumer spending, which in turn strongly boosted applications for mortgage and consumer loans, financial institutions substantially increased their operating volumes in 1987. This increased activity was also reflected in a marked increase in employment, with the number of persons employed rising by 5.3% since 1986. The fly in the ointment was the stock market collapse on Monday, October 19, 1987 and the following days, which created a distinct climate of uncertainty concerning the economic outlook. In addition to cooling investors' enthusiasm considerably, the stock market crash had negative impact on the Quebec Stock Savings Plan (QSSP), as most small Quebec businesses wishing to enter the stock market delayed or withdrew their share issues.

Another feature of 1987 was the faster decompartmentalization of the four major components of the financial sector (banks, trust companies, insurance companies and real estate brokers), with several institutions changing control.

Socio-cultural, business and personal services

Growth in the socio-cultural, business and personal services sector, whose activities are largely parapublic, in particular health care and educational services, was weak in 1987. Real GDP grew by a mere 0.3%, as a result of budgetary restraint and low population growth. It was on the employment front that services' performance was the most encouraging in 1987. Having for some years captured a growing share of total employment in Quebec, the service sector added 37,000 workers during the year, a sizeable 3.9% increase over last year. In all, the number of employed reached a new high of 984,000. Job creation was particularly high in medical and social services (+19,000 or 7.1%) and accommodation and restaurants (+7,000 or 4.3%). Notable gains were also seen in miscellaneous services and entertainment and recreational agencies, with 4.8% and 6.7% increases in employment levels respectively. In the field of education and business services, on the other hand, the number of persons employed grew less quickly, by 2.5% and 1.7% respectively. Only

jobs in personal services were down from last year, by 7.2%.

Capital expenditure in socio-cultural, business and personal services totalled $2.02 billion in 1987, some $200 million more than the previous year. Almost all of this increase was attributable to the purchase of machinery and equipment by hospitals and educational and social service institutions, which went from $1.72 billion in 1986 to $1.92 billion in 1987.

Public administration

In Quebec, employment in public administration and defence rose significantly in 1987. Employing a total of 209,000 people, distributed almost equally among federal, provincial and municipal governments, the sector added 11,000 workers since last year. The provincial government entirely recovered the 4,000-jobs lost in 1986 by creating 7,000 jobs this year, a sizeable 10.1% increase. High gains were also seen in local government, where the number of people employed rose by 3,000 (+4.7%). On the other hand, there was no change in the federal government, which still employed 64,000 workers. Average weekly wages for the group as a whole rose by 4.8% during the year, reaching $562.30 in 1987.

For the second year running, capital investment declined in 1987, totalling $3.05 billion. While investment in machinery and equipment rose by 1%, construction expenditure, including the construction of public buildings and infrastructure for transportation, water supply and wastewater in particular, fell by 0.5%. In all, capital investment in 1987 was down by 0.2%.

Table 11

TERTIARY SECTOR IN QUEBEC
main indicators

Group	GDP ($ million) 1986	GDP ($ million) 1987	Employment ('000) 1986	Employment ('000) 1987	Capital expenditure ($ million) 1986	Capital expenditure ($ million) 1987
Transportation, communication and other utilities	8 734	9 582	218	232	2 877	3 483
Trade	10 171	11 057	515	521	421	509
Finance, insurance and real estate	11 729	12 260	155	169	1 217	1 637
Services	18 596	18 661	947	984	1 822	2 021
Public administration	5 042	5 086	198	209	3 059*	3 053*
Total	54 272	56 646	2 033	2 115	9 396	10 703

* Including institutions.

Source: Statistics Canada, Conference Board of Canada.

TOURISM

Performance

While the number of American tourists visiting Quebec rose only slightly in 1987, there was a significant increase in the number of tourists from elsewhere. Indeed, between January and September 1987, the number of American tourists entering Quebec rose by only 2.2%, whereas tourists from other countries were up 20.3%.

This major feature of the 1987 tourist season is largely attributable to the decline of the Canadian dollar against European currencies and the efforts made by the different levels of government to attract these tourists to Canada. Non-U.S. tourists now account for 14% of the total foreign tourism market.

Quebec's performance compared favourably with the rest of Canada in 1987. Following the slack period after Expo '86 in Vancouver, the number of American tourists fell by 3.8% in the country as a whole whereas, as in Quebec, the number of non-U.S. tourists rose substantially, although a little less than in Quebec. Ontario posted the best performance in this regard, with a 37.3% increase.

The average hotel occupancy rate in Quebec between January and September 1987 was 60%, compared with 58.1% for the same period in 1986. The Montreal and Quebec City regions posted rates well above those of the other regions. For the summer 1987 tourist season, only the Gaspé and Abitibi-Temiscaming regions showed a decline since the previous year.

With respect to Montreal's tourism product, over the past few years efforts have been concentrated on renewing the city's attractions and defining a distinctive image for itself on foreign markets.

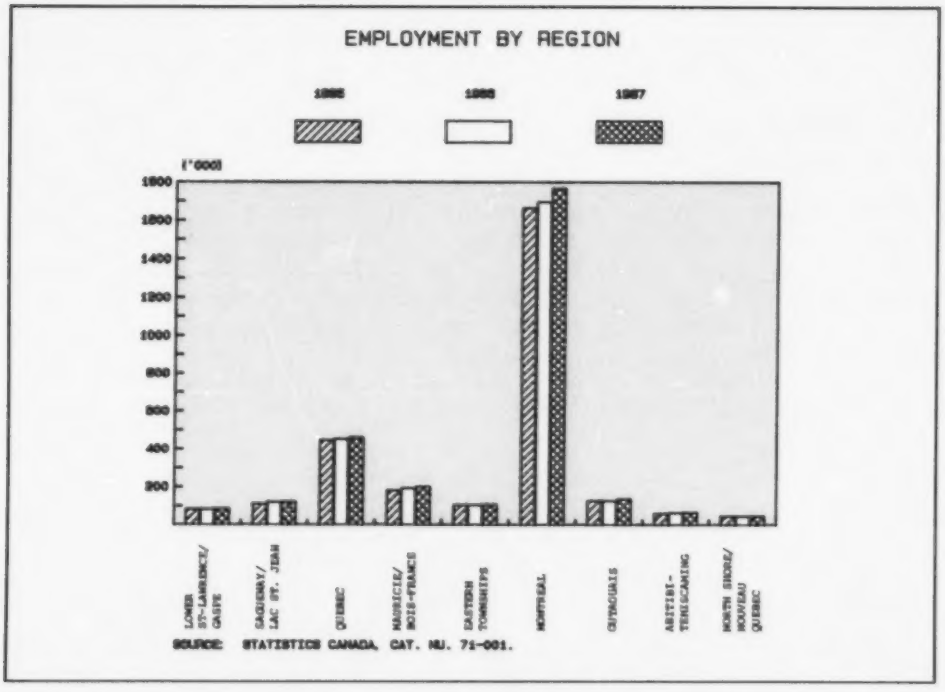
OVERVIEW OF QUEBEC REGIONS IN 1987

General overview

Overall, the Quebec economy posted an excellent economic performance in 1987: real gross domestic product rose by 5%, manufacturing investment was up 14%, and the employment level (+3.5%) advanced more quickly than in 1986 (+2.2%). But Quebec's regions did not share equally in this economic growth.

The greater Montreal area recorded substantial gains on the employment and manufacturing investment fronts. Among the other regions, only the Outaouais and Lower St. Lawrence/Gaspé posted an employment growth rate above the provincial average. The completion of major industrial projects meant lower levels of manufacturing investment in Mauricie/Bois Francs, Abitibi-Temiscaming and the North Shore, while at the other extreme the Montreal region saw its manufacturing investment rise at more than double the 1986 rate (cf. Graphs 29 and 30 and Table 12 attached).

Graph 29



Montreal region

The Montreal region accounts for 60% of all the jobs in Quebec and two-thirds of the province's manufacturing base.

Its economic base is largely divided between manufacturing and the export-oriented tertiary sector, including transportation and communications, financial services, services to business, head offices and tourism, concentrated mainly in the Montreal metropolitan area.

Its employment level grew by 4% in 1987, compared with 1.9% in 1986. This was the first time since 1984 that this rate had been above the provincial average (3.5%). But this fact had little impact on its unemployment rate, which drew back by a mere 0.5%, as the number of jobless remained steady while the labour force increased. At 10.0%, the unemployment rate

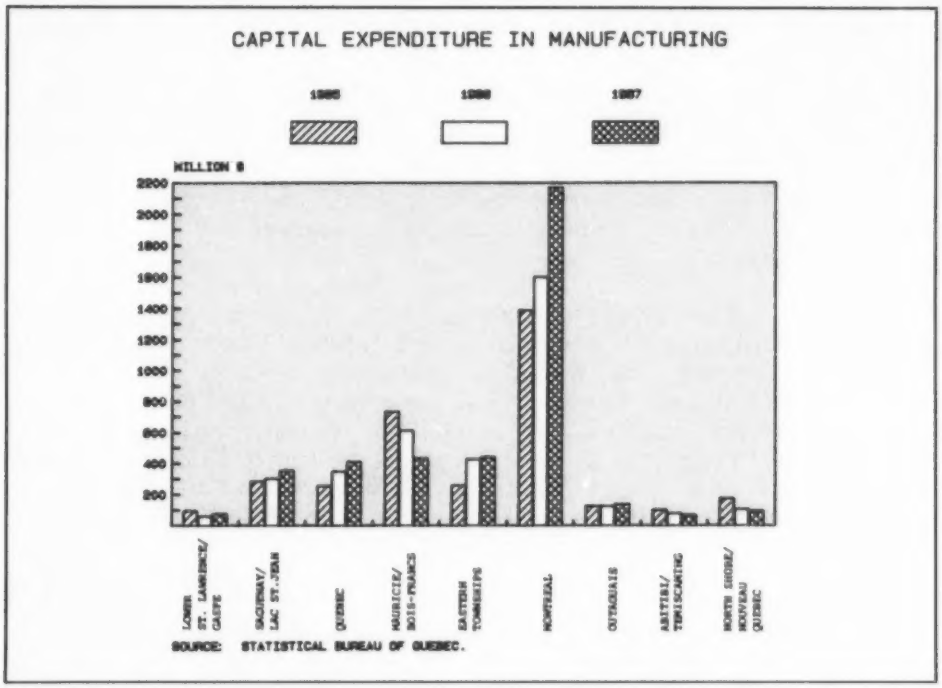
remains high, more than double Toronto's (4.6%) and only three-tenths of a point below the Quebec average (10.3%).

Manufacturing investment in the greater Montreal area reached $2.2 billion in 1987, up 36% (compared with 16% in 1986 and 14% in the province as a whole). More than one-quarter (27%) of this expenditure is invested in the machinery-transportation equipment group ($576 million, +70%). Major projects in progress or announced in these sectors include GM's automobile paintshop in St. Thérèse ($450 million), Hyundai's plant in Bromont ($350 million), Oerlikon's plant in St. Jean ($30 million) and the modernization of facilities at Bombardier's railroad division in Montreal ($17 million) and at Héroux in Longueuil ($12 million).

The other main industrial groups in terms of investment are petroleum and chemical industries ($329 million, or 15% of the total), primary metals ($281 million or 13%) and food and beverages ($253 million or 12%). Among major projects in these sectors are: Montupet's foundry for aluminum automobile parts in St. Césaire ($110 million), Petromont ($20 million), NL Chem Canada ($68 million) and Himont ($40 million) in Varennes, Air Liquide in Contrecoeur ($30 million) and Quebec Metal Powders in Tracy ($45 million).

Manufacturing investment in the Montreal metropolitan area, at $1.2 billion, rose by 21%, compared with 26% in 1986. This represents 42% of the value of investment carried out in Toronto, compared with only 32% in 1986.

Graph 30



Central regions

Most of the remaining jobs in Quebec are located in the central regions bordering the Montreal region.

The forestry industry and the agri-food and traditional sectors (textile-clothing-leather-furniture) are the main components of the economic base of the Mauricie/Bois-Francs and Eastern Townships regions.

Employment continued to grow in Mauricie/Bois Francs in 1987 (+3.1%), but much more slowly than in 1986 (+6.7%). While the unemployment rate went from 12.3% to 11.4%, it remains above the provincial average of 10.3%.

After hitting a high in 1985, manufacturing investment fell by 17% in 1986 and then 30% in 1987. The 1987 decrease is attributable to the completion of some

major establishment projects during the year, among them Aluminerie Bécancour ($1 billion), Oxychem ($50-million) and Hydrogénal ($45 million) in Bécancour, as well as the completion of modernization work on the CIP and Kruger paper mills in Trois Rivières ($5 million each).

The level of manufacturing investment in the region ($428 million) remained high none the less, eclipsing all the other regions except Montreal and the Eastern Townships. Other industrial projects will be completed in 1988, among them Norsk Hydro's plant in Bécancour ($500 million) and the modernization of the Consolidated Bathurst ($72 million) and Shawbec ($16 million) mills in Shawinigan.

Employment in the Eastern Townships, which had posted strong growth in 1985 (+11%) and steadied in 1986, started advancing again in 1987, but at a rate (+1.9%) below the provincial average of 3.5%. As its labour force grew more quickly than employment, the unemployment rate rose, going from Quebec's lowest (9%) in 1986 to 10.7% in 1987, higher than the provincial average.

The Eastern Townships ranked second in terms of manufacturing investment, thanks to expenditure associated with Domtar's major modernization project for its Windsor plant (cost $800 million; time frame 1985-1990). This expenditure accounted for some 80% of the $436 million in manufacturing investment in the region in 1987. The other main industrial projects announced this year are Canadian Oxygen's establishment projects in Magog ($36 million) and the modernization of Hooper's industrial machinery plant in Sherbrooke ($8 million). In addition, J.M. Asbestos undertook major work at its Asbestos mine ($108 million).

The economic base of the Quebec City and Outaouais regions is primarily split between public administration and manufacturing, although tourism also plays a major role in the former. Manufacturing in the Quebec City region, which provides as many jobs as the public sector, is quite diversified. The economy of the Outaouais is more dependent on public administration, employing twice as many people as the manufacturing sector, which is dominated by the wood and pulp and paper industries.

Labour market conditions in the Quebec City region were somewhat disappointing in 1987. For the second year in a row, the employment growth rate (+1.8%) was below the provincial average of 3.5%, although it was

an improvement over 1986 (+1.1%). The region's unemployment rate went from 9.6% to 8.5%, the lowest in Quebec.

Manufacturing investment in this region was up 18% at $407 million in 1987. The paper industry accounted for one-half of this expenditure. The addition of a new paper machine at Donohue's Clermont mill ($170-million) and Reid Paper's expansion in Quebec City ($146 million) are the main industrial projects in progress.

The Outaouais posted the best employment performance (+7.2%) of any region in Quebec in 1987. This was a decided turnaround since 1986, when the Outaouais was the only region where employment declined. This gain led to a decrease in the unemployment rate, which, while it went from 12.3% to 10.5%, still remains above the provincial average of 10.3%.

Manufacturing investment in the Outaouais rose by 10% to $136 million. Expenditure by the paper industry, accounting for 45% of this total, ran to $60 million, 35% below the previous year following the completion of expansion work on CIP's mill at Gatineau ($46 million). Erco, the Buckingham chemical products manufacturer, carried out modernization work costing $6 million.

Resource regions

The outlying regions of Lower St. Lawrence/Gaspé, Saguenay/Lac St. Jean, Abitibi-Temiscaming and North Shore/New Quebec account for 10% of jobs in Quebec. The economy of these regions has always been largely reliant on the exploitation of natural resources (forestry, mining, agriculture, fishing, hydro-electricity, etc). They include one hundred or so company towns, half of which depend exclusively on the forestry sector.

The economy of Saguenay/Lac St. Jean is heavily based on forestry and aluminum.

Employment continued to grow in 1987 (+1.7%), but much more slowly than in 1986 (+7.2%) and 1985 (+21%). The unemployment rate fell by only one-half of a percentage point. At 13.2% it is the third highest in Quebec after Lower St. Lawrence/Gaspé and the North Shore.

Manufacturing investment was up 17% in 1987 at $353-million. The paper industry accounted for some 43% of this expenditure, primarily for ongoing modernization

work on Domtar's Dolbeau mill ($78 million) and Abitibi-Price's Alma mill ($40 million) and for the construction of a flotation tank at Consolidated Bathurst's la Baie facility ($9 million). Alcan also made a substantial investment in its various facilities, with the primary metals industry accounting for one-third of all manufacturing investment. In particular, Alcan announced the start of construction work on a new aluminum smelter in Laterrière at a cost of $750 million. Other large projects in progress or announced include Normick Chambord's waferboard plant in Chambord ($58 million) and Desbiens Industries' sanitary product facility in Desbiens ($20 million).

The fishing, forestry and tourism sectors are the main components of the economic base of Lower St. Lawrence/ Gaspé.

This region saws its employment level rise by 5.0% in 1987, the second highest rate in Quebec. The unemployment rate, which stood at 18.8% in 1986, fell to 14.7%, but remained the province's highest. Lower St. Lawrence/Gaspé is also the region with by far the lowest labour market participation rate and per capita disposable income.

Manufacturing investment rose in the region by 25% in 1987 to $73 million. The bulk of this expenditure ($50 million) was made in the paper industry. The modernization of Abitibi-Price's Chandler mill ($113-million) is the main industrial project in progress.

Another feature of 1987 was the opening of Fisheries and Oceans Canada's Maurice Lamontagne Research Institute, built in St. Flavie at a cost of $40 million.

The economic base of Abitibi-Temiscaming is divided between the mining (gold, copper, etc.) and forestry industries. The employment level rose slightly in Abitibi-Temiscaming in 1987 (+1.6%) following marked increases in 1986 (+8.5%) and 1985 (+7.3%). A smaller labour force translated into a significant drop in the unemployment rate, which went from 11.7% to 8.8%, Quebec's second lowest.

The flow-through share tax credit program, intended to stimulate mine prospecting, is largely responsible for the good economic situation enjoyed by this region over the past few years. Expenditure on prospecting, which was already high in 1986 ($227 million), almost doubled in 1987 to $450 million, which represents 88% of all prospecting expenditure in Quebec.

Capital investment in the primary forestry and mining sectors rose by 25% to $147 million. Despite the start of work on Noranda's pollution management facility in Noranda ($125 million; time frame 1987-1989), total manufacturing investment fell by 13% to $66 million.

The exploitation of mining, forestry and fishery resources, along with the availability of substantial hydro-electric power, is the economic base of the North Shore/New Quebec region.

The North Shore has lost more than 10% of its population since 1981, as its economy was hard hit by the decline of the iron industry. This primarily affected the Port Cartier and especially the Sept Iles subregions, as well as leading to the closure of the mining towns of Schefferville and Gagnon.

It was also the only region in Quebec to post a lower employment level in 1987 (-2.2%). Against all odds, the unemployment rate moved back eight-tenths of a percentage point, because of the exodus from the region. At 13.6%, the North Shore's unemployment rate is now surpassed only by Lower St. Lawrence/Gaspé.

Total investment in the North Shore/New Quebec region was up 11% in 1987 at $994 million. Expenditure in the hydro-electric power sector ($583 million) accounted for some 60% of all investment in the region, increasing by 42% in 1987 with ongoing work to increase Manic 5's capacity ($800 million between 1986 and 1988) and the start of refitting work on the Bersimis I and II power stations ($70 million by 1991). This investment will primarily benefit the economy of Baie Comeau, the site of Hydro Quebec's regional head office.

Expenditure in other sectors of activity ($411 million) was down by 15%, with investment in the primary forestry and mining sectors ($86 million) falling by 43% and manufacturing investment ($94 million) by 10%.

The new federal penitentiary at Port Cartier ($40 million, 250-400 jobs) is scheduled for completion in 1988.

Table 12

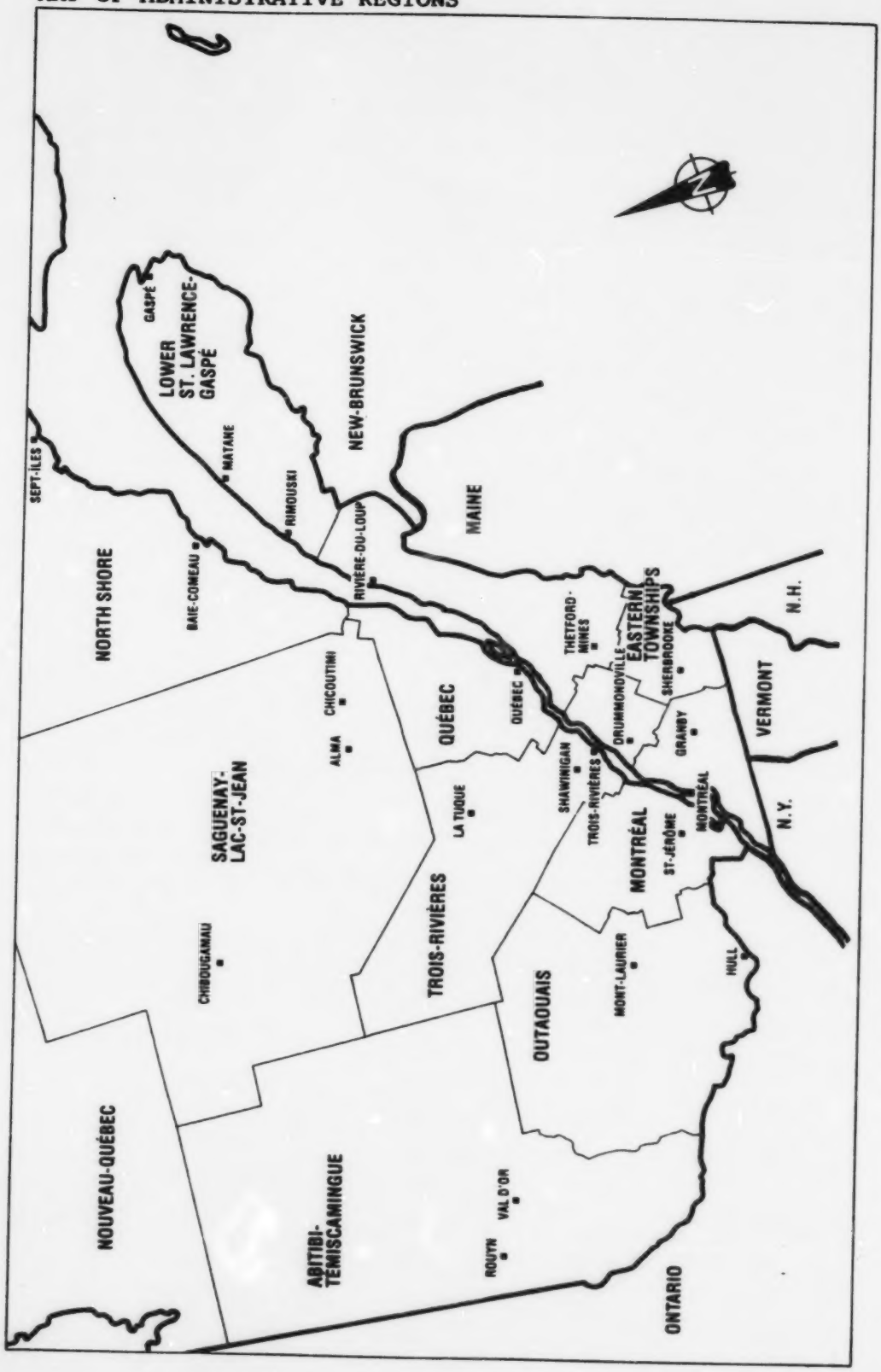
SUMMARY TABLE OF QUEBEC REGIONS 1986-1987

REGIONS	POPULATION		LABOUR MARKET					INCOME		CAPITAL EXPENDITURE			
	Population 1986		Employed			Unemployment rate		PDIC*		Total		Manufacturing	
	number	% of Québec	1986 ('000)	1987 ('000)	87/86 %	1986 %	1987 %	(Québec=100) 1983	1987	1987 (M $)	87/86 %	1987 ($'000)	87/86 %
MONTREAL REGION	3,713,900	56,8	1,695	1,763	4,0	10,5	10,0	107,8	106,6	13,730.0	15,2	2,165,894	35,6
CENTRAL REGIONS													
.Québec	1,047,397	16,0	450	458	1,8	9,6	8,5	92,7	96,7	2,997.3	10,0	406,669	18,4
.Mauricie/Bois-Francs	446,728	6,8	192	198	3,1	12,3	11,4	88,0	86,9	1,506.5	-3,2	428,412	-29,7
.Eastern Townships	241,017	3,7	104	106	1,9	9,0	10,7	86,7	90,2	1,046.4	4,0	436,019	3,0
.Outaouais	287,221	4,4	125	133	7,2	12,3	10,5	95,2	98,4	1,022.1	14,2	135,793	10,0
RESOURCES REGIONS													
.Lower St. Lawrence/ Gaspe	231,638	3,5	80	85	5,0	18,8	14,7	71,8	78,7	537.9	6,6	72,848	24,8
.Saguenay/Lac St. Jean	299,864	4,6	119	122	1,7	13,7	13,2	93,0	82,0	993.6	16,3	352,632	17,3
.Abitibi/Témiscaming	154,737	2,4	64	64	1,6	11,7	8,8	90,8	84,4	572.6	13,0	66,315	-12,7
.North Shore-Nouveau Quebec	117,774	1,8	45	44	-2,2	14,4	13,6	n.a.	87,1	993.8	10,9	93,918	-9,6
PROVINCE OF QUEBEC	6,540,276	100,0	2,874	2,973	3,5	11,0	10,3	100,0	100,0	23,400.2	12,2	4,158,500	14,4

*PDIC: Personal disposable income per capita: Québec 1984= $9,810; 1987= $12,200.

Sources: Statistics Canada, Financial Post, Quebec Bureau of Statistics.

MAP OF ADMINISTRATIVE REGIONS



OUTLOOK FOR QUEBEC IN 1988

Since the 1982 recession, Quebec's economic growth has constantly equalled or surpassed that of Canada as a whole. This growth was fuelled by strong consumer spending and by investment, especially in residential construction. But consumer spending should gradually run out of steam because of the low savings rate, the rather weak rise in per capita disposable income and the drop in households' assets since the stock market crash. Moreover, with available housing now slightly exceeding demand, home construction will slow down in the next few months.

A marked slowdown in economic growth will result in 1988, but this will be less pronounced in Quebec. With a GDP growth rate between 2.5% and 3%, Quebec will have one of the best growth rates in an industrialized country. Canada and Ontario will post comparable growth rates. On the other hand, the United States will have to be content with expansion between 1.5% and 2%. This slowdown will largely be the result of lower consumer spending, the negative impact of which will be partially offset by an improvement in the U.S. trade balance. West Germany will post 1.5% growth, while only Japan will overtake Canada and Quebec in terms of growth with a 3% gain.

Residential construction, the engine of growth in the province in 1987, will give way to non-residential construction. From 72,000 in 1987, the number of housing starts in 1988 should not exceed 48,000. While this is a substantial decrease, the number of housing starts in 1988 will be historically quite high, well above the household formation rate. But the impact of such a slowdown combined with a drop in wood exports to the United States will be felt in a large number of manufacturing industries, including the wood, furniture and electrical appliance sectors. The decline in residential construction could, however, be lessened if interest rates fall more than they are expected to.

In addition, non-residential construction will remain at high levels in Quebec. Indeed, foreign firms may be expected to invest in Canada and Quebec owing to the decline of the Canadian dollar against the currencies of the major industrialized countries, which would actually benefit from lower production costs than at home. Moreover, construction on major manufacturing projects, such as Hyundai, GM, Alcan at Laterrière, Norsk Hydro and Domtar will continue in Quebec in 1988. Finally, investment by Hydro Quebec,

after a relatively slack period, has gradually begun to increase slowly again.

Over the next few years, thanks to the resumption of work at James Bay, Hydro Quebec's investment will be the engine of economic growth in Quebec and will offset the decline in residential investment.

Another negative factor in 1988 will be the weakening of consumer spending by households. The cyclical slowdown expected in spending on durable goods and the dramatic drop in the savings rate over the past few years mean that consumers will be more cautious in their purchases in 1988. Their means will be all the more limited since their indebtedness rose markedly last year and their assets were reduced by the stock market crash. On the other hand, an improvement in the employment picture would lessen this negative impact.

Despite slowing down somewhat relative to 1987, employment should grow by more than 2% in 1988, adding some 70,000 new jobs. But this growth will not be sufficient to bring down the unemployment rate, which should remain at about 10% for the whole of 1988.

On the sectoral front, things should continue to advance in the manufacturing industry. But growth will be slower than in 1987, reflecting the decline in home construction activity and the slowdown in consumer spending.

The industries which should see the greatest growth are pulp and paper and aluminum, which are currently enjoying substantially higher demand and prices. Several years ago these industries modernized their equipment, thus becoming much more competitive. Moreover, being strongly oriented toward foreign markets, they are benefitting considerably from the lower Canadian dollar and the revaluation of the currencies of its main competitors.

The start of operations at Hyundai's plant and GM's modernization will enable the transportation equipment industry to perform significantly better in Quebec than in the other Canadian provinces. Indeed, declining demand for durable goods, automobiles in particular, will affect Ontario's automobile output, while new investment will allow the Quebec industry to make substantial progress. The slump in shipbuilding, however, will reduce that industry's growth rate.

The wood, furniture, electrical appliance, leather, textile and clothing industries will perform less well

in 1987. Indeed, the drop in residential construction, slowdown in consumer spending, elimination of quotas on women's footwear and renegotiation of bilateral trade agreements will have negative impact on these industries.

Finally, the services sector should grow at much the same rate as the economy as a whole, owing to the weakness of trade, transportation, and finance, insurance and real estate.

Table 13

Comparison of forecasts
Quebec 1988

	Variation in % G.D.P.	Employment	% Unemployment rate	Housing starts
Conference Board	2,6	2,4	10,7	44 500
Caisse de Dépôt	3,0	2,0	10,0	48 000
Royal Bank	3,0	2,0	9,5	51 200
National Bank	2,0	1,3	10,8	45 000
C.I.B.C.	3,3	2,3	10,2	48 000
Informetrica	3,6	2,4	10,3	56 400

Source: DRIE Quebec.

PART II

Major factors affecting the Quebec economy

QUEBEC'S PHARMACEUTICAL INDUSTRY

The Canadian pharmaceutical industry produces drugs and medicines for human use, specialties for veterinary medicine and biological and immunological products (vaccines, hormone-based products and blood products). The products for human use fall into two main categories:

- medicines sold only on doctors' prescription or therapeutic specialties (ethical drugs)
- common medicines on sale over the counter (proprietary drugs).

Ethical drugs account for 70% of sales volume in Canada and over-the-counter drugs for 22%. Veterinary products, with 6% of sales volume, and biological and immunological products (2%) represent only a small share of Canadian output.

Canada's pharmaceutical industry consists of innovative firms producing drugs developed from their own research and generic firms producing copies of patent medicines. Generic firms may produce copies of patent medicines either when the patent has expired or under a manufacturing licence.

SCOPE OF THIS SECTOR IN QUEBEC

In 1985, Canada's pharmaceutical industry consisted of 134 establishments employing 16,700 people and representing shipments worth $2.2 billion. The industry is concentrated in Ontario and Quebec, which have 50% and 34% of Canada's establishments respectively.

In 1985, some 6,600 people were working in the industry in Quebec, representing 39% of employment in the industry in Canada and 1.2% of manufacturing employment in Quebec; Ontario's share of Canadian employment was 57% that year. Quebec's and Ontario's relative shares of shipments and added value were approximately 40% and 57%.

Over the past 12 years or so, Quebec's share in the activity of the Canadian industry as a whole has fallen, particularly with respect to total employment.

Table 14

Share of industry activity in Canada Quebec and Ontario

	1976		1981		1985	
	Que.	Ont.	Que.	Ont.	Que.	Ont.
	percentage					
Total employment	47,1	50,5	45,0	51,7	39,3	57,4
Value of shipments	46,5	51,2	42,6	55,6	40,8	56,9
Manufacturing value added	45,0	53,6	42,3	50,7	41,8	57,0

This evolution was the result of a combination of factors. It was partly attributable to a general westward movement of office jobs, to Toronto in particular. Indeed, several head offices were transfered to Ontario (Syntex, Ciba-Geigy, Bristol-Myers, Hoffmann-La Roche, for instance).

The erosion of Quebec's position is also partly attributable to impact of the legislative environment on the growth of the deffirent components of the industry in Canada. The closure of several research facilities in Quebec (Boehringer-Ingelheim, MerckFrosst, Abbott Laboratories, Ayerst, etc.) was partly caused by this legislative environment. On the other hand, the growth of generic firms was favoured by the 1969 Patent Act and was stronger in Ontario than in Quebec.

The relative deterioration of Quebec's position vis-à-vis Ontario did not involve quantity alone. It also

The relative deterioration of Quebec's position vis-à-vis Ontario did not involve quantity alone. It also had a qualitative effect, since there was a distinct change in the relative position of the two provinces with respect to white-collar jobs. The Quebec/Ontario ratio for jobs in administration, sales, and research and development went from 1.07 in 1969 to 1.03 in 1976, 0.86 in 1982 and 0.63 in 1985.

STRUCTURE

The pharmaceutical industry in Canada is dominated by foreign firms. In fact, 28 of the 30 largest pharmaceutical firms in Canada are subsidiaries of multinationals. These 28 firms hold some 80% of the Canadian market.

Canadian firms primarily produce generic drugs. The two main manufacturers of this type of product are located in Ontario.

Moreover, the generic firms in Ontario generally have a much larger sales volume than generic firms located in Quebec.

Generic firms located in Quebec generally concentrate on the manufacture of products whose patents have expired, while Ontario firms have taken much more advantage of mandatory licensing opportunities.

Canada's domination by multinational subsidiaries and its limited domestic market (representing only 1.5% of the world market) are not without impact on the state of the country's foreign trade in pharmaceuticals and the industry's potential for innovation.

FOREIGN TRADE

Canada has a trade deficit in pharmaceuticals. Since 1980, this deficit has fluctuated between $300 and $400 million. Most Canadian subsidiaries of multinationals are subject to territorial restrictions concerning shipments to foreign markets. The purpose of such restrictions is basically to ensure that the Canadian market is supplied. Consequently Canada's pharmaceutical industry focusses little on foreign markets, and exports account for only 7-8% of shipments.

The Canadian industry manufactures only a small portion of the active principles used to make pharmaceutical products in dosage form (tablets, capsules, etc.). Few countries have a domestic market large enough to justify by itself the establishment of a production unit for active ingredients. This operation is generally carried out on a large scale in plants which supply several countries. Canadian firms currently have to import a substantial portion of the active ingredients they use. In fact, active principles account for approximately two-thirds of Canada's imports of pharmaceutical products.

RESEARCH AND DEVELOPMENT IN CANADA

In 1985, the Canadian pharmaceutical industry spent $85 million on research and development, including $65 million in pharmaceutical firm laboratories and $20 million in universities and hospitals. Investment that year broke down as follows: approximately $39-million in Quebec, $38 million in Ontario and $8 million in the other provinces.

The fact that investment was higher in Quebec than in Ontario partly reflects the fact that there are more researchers in Quebec than in Ontario. In 1983, the ratio was 60/40 in Quebec's favour, but the gap has probably narrowed since.

Funds spent on R&D represent some 3.5% of the value of the industry's shipments in Canada. This proportion is much lower than the 8-15% generally seen in the other industrialized countries. This situation is attributable to the domination by multinational subsidiaries in Canada and to where the R&D function is located.

It is estimated that a pharmaceutical research laboratory must have an annual budget of at least $35 million to reach a critical size below which it would not be realistic to expect the firm to be able to develop any new products. In these conditions it is not surprising to see a concentration and centralization of basic research activities worldwide. In this respect, Canada appears to be at a disadvantage.

Basic research is concentrated near the head offices of multinational companies (in the United States, West Germany, Switzerland, United Kingdom, France and Japan) or in countries where a large pool of scientific manpower with an established reputation is available.

Most of the research carried out in Canada is intended to ensure that drugs developed by the industry comply with Canadian government standards and regulations. This is known as clinical research. Canada has the human resources and infrastructure necessary to play the game well at this level.

PATENT ACT

In 1969, the Canadian government amended the provisions of Section 41 of the Patent Act to extend the mandatory awarding of licences on patent medicines to the importing of drugs or active ingredients so that

manufacturers of generic drugs could compete with patent holders. Manufacturers of generic products did not have to undertake any research whatsoever with respect to the licensed product. Royalties could not exceed 4% of the value of sales of the product.

The new provisions of the Patent Act did not provide for an exclusive marketing period for innovative firms which would have allowed these companies to amortize the cost of their research. In principle, generic firms could request a mandatory licence as soon as the innovative firm had received permission to sell the drug it had developed.

In practice, of course, the generic firm assessed sales of the drug and then had to wait for Health and Welfare Canada's approval before being able to sell a generic copy of the patented product. Owing to this delay, the innovative firms were able to enjoy an exclusive marketing period of about four years. But the innovative firms considered that to be insufficient.

The 1969 Patent Act earned Canada a very bad reputation in the eyes of the international industry, which considered the awarding of mandatory licences as a violation of the fundamental property rights guaranteed in most industrialized countries. In addition, the 4% royalties were considered out of all proportion to the investment required to develop new products.

In fact, it is now estimated that the cost of developing a new drug, from the initial outline of the concept to the marketing stage, is more than $80 million. Moreover, the entire process can take 8-12 years.

(1) Impact of the 1969 Patent Act

> By allowing firms which had not had to perform R&D work to market copies of patent medicines, the 1969 statute obviously led to competition in terms of prices. The price of generic drugs marketed under mandatory licences was obviously set lower than that of patented drugs, and this forced innovative firms to adapt, at least to some extent.

In some cases the adjustment was not a major one, since demand for the innovative firm's products was not very elastic. But for a number of innovative firms the impact was considerable.

It was drugs with the highest sales that were the subject of applications for licences. Since innovative firms often receive a large portion of their earnings from a small number of highly successful drugs, it is understandable that the financial position of a number of firms holding patents was affected by the Patent Act. Moreover, the impact of this legislation was reinforced by the measures decreed by provincial governments in order to control the costs of their health care programs.

The provisions of the Patent Act placed Canadian subsidiaries of multinationals in a delicate position when they tried to obtain a share of international investment from their parent company or when there was a realignment in the firm's activities. These provisions must be seen as one of the reasons behind the transfer of a number of research facilities from Quebec to the United States and the abandonment of a number of expansion projects.

Prior to 1969, some 10 generic drug manufacturers focussed their production on drugs whose patents had expired and on a number of patented drugs under agreements concerning voluntary licences. In 1982, generic drug manufacturers employed some 1,300 people. The association representing generic product manufacturers now numbers more than 20 firms.

A major portion of generic product manufacturers' output still comes from voluntary licences or products whose patent has expired. None the less, the profitability of products which have been subject to mandatory licences certainly contributed significantly to the expansion of generic firms' activities.

(2) Adoption of Bill C-22

The adoption by the House of Commons of Bill C-22 on patents has brought major changes to the legislative framework within which pharmaceutical firms had to operate in Canada. This bill, proclaimed on November 19, 1987, provides innovative firms with:

- protection for seven years against competition from generic product manufacturers;

- protection for 10 years against competition from generic firms on the basis of imported patented products.

In addition, the new legislation allows innovative firms to extend the period of protection against

mandatory licences for importation up to 20 years from the registration of the patent application if they can show that the drug was developed in Canada. It also provides for extension of the exclusive marketing period beyond seven years if the innovative firm manufactures the patented products from active ingredients manufactured in Canada.

OUTLOOK

The pharmaceutical firms belonging to the Pharmaceutical Manufacturers Association of Canada (PMAC) promised, after Bill C-22 was adopted, to increase their spending on R&D to 10% of their sales. Over the next decade, $3 billion would thus be invested in pharmaceutical research.

If the announced investment were divided between Quebec and Ontario in a ratio reflecting the relative number of researchers in the two provinces, Quebec would be favoured. To date, a total of $837.5 million in investment has been announced: 30.4% in Quebec, 30.8% in Ontario, 14.5% for British Columbia, and 24.3% for the other provinces.

Several of the capital projects announced would involve basic research. This is the case in Quebec for Merck Frosst and Nordic Laboratories. But most of the investment announced is for clinical research, and the situation is unlikely to change in this respect.

The adoption of Bill C-22 could also promote the commissioning of facilities producing active ingredients, and this should, in the long term, favour greater vertical integration in Canada, thus making the Canadian pharmaceutical industry more competitive internationally. This would be a significant asset in a freer economic environment in North America.

QUEBEC'S EXPORTS

One of the basic measurements of an economy's vitality is its ability to export. Indeed, exports are an important test of the international competitiveness of national output. This is all the more true in the case of smaller economies like Canada's, and Quebec's in particular. In this respect, it is clear that both economies are largely dependent for their prosperity on foreign sales. In the case of Quebec, exports of goods to international markets account for 19.2% of the province's GDP. The proportion is even greater for the Canadian economy as a whole (23.7%). By comparison, exports of goods from Japan account for 15.5% of its GDP and from the United States an even smaller 5.3%. Exports thus play a prime role in the Quebec economy. But several factors limit the province's export potential, and the problem of Quebec's exports is thus the subject of this analysis.

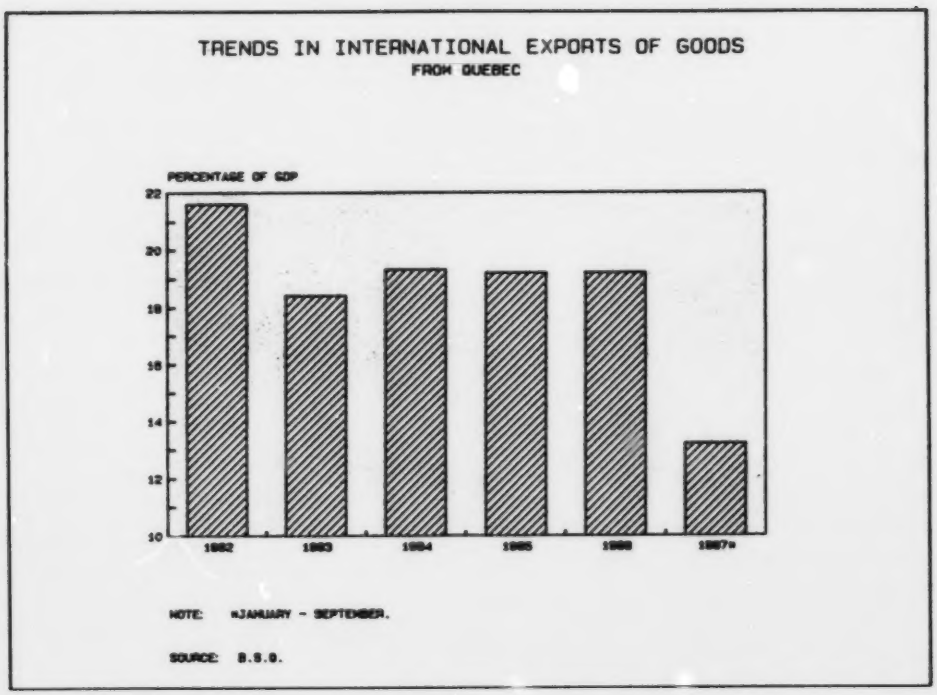
1. Quebec's exports: current status

1.1 Scope of the export sector

The Quebec economy depends on foreign markets for its prosperity. Several indicators are revealing in this regard:

- In 1986, Quebec exported goods (raw and manufactured) outside Canada worth more than $19 billion, representing some 19% of its GDP (Graph 31).

Graph 31

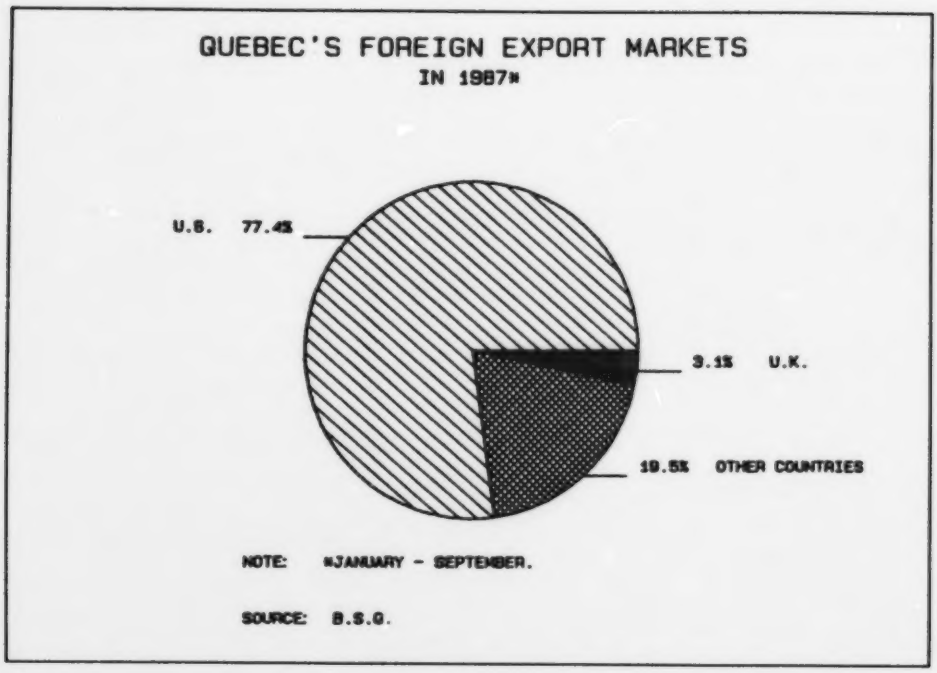


International exports from Quebec grew by more than 12% annually from 1971 to 1986. But the growth rate of Quebec exports was slightly below that of Canada as a whole (approximately 14% annually) over the same period.

1.2 Quebec's trading partners

The United States is Quebec's most important foreign trading partner by far, now buying more than 77% of the province's international exports (Graph 32). In the early 1970s, this proportion was only 63%.

Graph 32



In 1986, Quebec shipped goods worth $15.5 billion to the United States. The next most important destinations for the province's international exports, far behind the U.S., were the EEC (10.3% of Quebec's total exports) and Japan (less than 2%).

It should, however, be remembered that while the province does a great deal of business with other countries, it also trades with the other provinces. According to the most recent data (1984), Quebec's manufacturing industries do slightly more business with the rest of Canada than with foreign countries. In fact, approximately 24% of shipments from Quebec's manufacturing sector are to the rest of Canada, compared with 22% to international markets. Within Canada, Ontario is the province to which most of Quebec's manufacturing shipments are destined ($8.8 billion in 1984).

1.3 Structure of exports

Most of Quebec's international exports consist of inedible fabricated materials (lumber, paper, textiles, etc.), which account for 45% of the province's total exports. This proportion is much the same as it was 15 years ago. The second major category of exported goods is inedible finished products (automobiles, aircraft, etc.). This category, which in 1971 accounted for a little over 27% of Quebec's international exports, today accounts for 40%. On the other hand, the share of inedible raw materials (ore, crude wood, etc.) in Quebec's total exports has been constinously delining for several years, standing today at barely 7.6%, compared with close to 18% in 1971. This trend reflects the higher degree of resource processing than previously in Quebec and increased competition from other raw material supplier countries. The remainder of Quebec's international exports consists of foodstuffs, feed, beverages, tobacco and live animals. Over the past 15 years or so, this category's share of total exports from Quebec has remained steady at approximately 6%.

Furthermore, the range of products which Quebec exports to international markets is limited, since barely 10 products account for more than one-half of international exports (Table 15). A major downturn in foreign demand for a single product (paper, for instance) can thus have negative impact on the province's overall trade balance, which indeed already posts a deficit. This problem is not exclusive to Quebec, since there is little variety in Canadian exports either. But the main products exported by Canada as a whole are different from those exported by Quebec (Table 16).

The recent evolution of the various major components of Quebec's exports is thus encouraging given the growing importance of the share held by finished products. This positive development has been visible primarily in the 1980s. But the fact remains that the share of finished products in international exports of goods is higher in Canada as a whole than in Quebec (46% vs. 39.7% in 1986), owing among other things to the substantial exports of automobiles from Ontario.

Table 15

Main products exported
Quebec 1986

	$ thousands	Percentage of total exports
Printing paper	2 935 080	14,7
Automobiles and chassis	1 914 285	9,6
Aluminum and alloys	1 505 085	7,6
Lumber	736 793	3,7
Aircraft engines and parts	676 444	3,4
Electronic tubes and semi-conductors	603 003	3,0
Iron ore, concentrates and scrap	573 435	2,9
Aircraft assemblies, equipment and parts	411 476	2,1
Railway and streetcar rolling stock	408 946	2,1
Fresh, chilled or frozen meat	407 442	2,0
Total of 10 main product groups	10 171 989	51,0
Total exports	**19 929 264**	**100,0**

Source: BSQ (Quebec statistics bureau).

Table 16

Main products exported
Canada 1986

	$ thousands	Percentage total exports
Automobiles and chassis	17 936 385	14,9
Other motor veh. parts and acc.	9 563 610	7,9
Printing and paper	6 281 742	5,2
Crude petroleum and allied prod.	6 256 885	5,2
Trucks and chassis	5 212 162	4,3
Lumber	5 002 342	4,2
Wood pulp and similar pulp	4 072 455	3,4
Unmilled cereals	3 534 140	2,9
Other precious metal and alloys	3 058 197	2,5
Office machines and equipment	1 887 273	1,6
Total of 10 main product groups	62 805 191	52,1
Total exports	**120 494 865**	**100,0**

Source: BSQ (Quebec statistics bureau).

2. Competitive position of Quebec's exports

In the context of a changing world economy where competition among countries is intensifying, it is essential that the price of Quebec products for export remain competitive. How competitive the province's export products are depends among other things on the interaction of three factors, name-

ly, the productivity of the Quebec economy, labour costs, and finally a number of other factors lying outside this economy, such as the value of the Canadian dollar against the currencies of our major trading partners or the general international situation.

2.1 Productivity

The productivity of Quebec's primary and secondary sectors (as measured by the GDP of these sectors in constant dollars per employee) is about 83% of the Canadian average. This key factor of the competitiveness of the price of Quebec products is itself dependent on a set of variables, including capital stock per worker, technology used, and size of production units.

The capital stock per worker in Quebec's manufacturing industry currently stands at 86% of Ontario's level and 79% of the Canadian level. In fact, out of a total of 17 industries in the manufacturing sector for which we have data, the capital stock per worker in Quebec is higher than in Ontario in only six industries (Table 17). This situation is not to Quebec's advantage, since it tends to lower the productivity level of its economy and of its export sector.

This situation is the outcome of the long period of inadequate private investment in Quebec during the 1970s. The province's tardiness was particularly evident in manufacturing (Table 18). For instance, during the 1970s, capital investment in the Quebec manufacturing sector accounted for barely 21% of the Canadian total, while the province's deliveries from this sector represented 26.4% of the national total. Since the start of the economic recovery in 1983, however, Quebec has done some catching up in this regard.

The productivity of an economy also depends on the effort put into research and development (R&D), as well as the equipment and technology used. Thus, the more modern and efficient the production techniques used, the lower production costs will be, and this will encourage foreign sales.

Table 17

Capital stock per employee
major manufacturing industries (1984)

Industry	Quebec as % of Ontario	Quebec as % of Canada
Food and beverages	83,7	93,5
Tobacco	96,9	106,4
Rubber and plastics	152,0	130,8
Leather	58,3	72,8
Textiles	74,3	89,9
Clothing	95,2	95,8
Wood	84,8	65,6
Furniture	126,0	116,2
Paper and allied products	114,3	78,2
Printing and publishing	81,6	90,5
Primary metals	101,3	100,4
Metal fabricating	80,9	88,5
Machinery	92,2	99,4
Transportation equipment	66,6	73,9
Electrical appliances and equipment	114,0	113,7
Petroleum and coal products	288,6	154,0
Chemical industry	66,6	53,7
Manufacturing total	**85,6**	**78,8**

Source: Statistics Canada.

Table 18

	Capital expenditure (percentage)	
Manufacturing	Quebec / Ontario	Quebec / Canada
1961-1969	51,0	24,7
1970-1982	44,9	21,4
1983-1987	55,5	27,3
All sectors		
1961-1969	63,2	22,4
1970-1982	64,4	20,3
1983-1987	58,1	21,1

Source: Statistics Canaa. The data for 1987 are projections.

A number of indicators show that both in Canada and in Quebec there are shortcomings in terms of R&D as well as some delays in adopting really modern production techniques. For instance, whereas the United States and Japan devote approximately 2.8% of their GDP to R&D, Canada spends a mere 1.3% (latest data available, 1984). In Quebec, the proportion is even lower (1.2%), and substantially below that of Ontario (1.7%). It should, however, be mentioned that in this regard Quebec has caught up considerably over the past few years, since the proportion of its GDP devoted to R&D in 1980 was only 0.9%. Moreover, in 1984 the ratio of scientists, engineers and technologists working in the natural sciences and engineering in Quebec to total employment compared favourably with Ontario (8.5% vs. 8.3%).

With respect to the equipment and technology used, a recent survey conducted by the Economic Council of Canada (1) showed that in 1985 barely 11% of employees in Quebec worked with computers, compared with 17% in Ontario and 21% in the Western provinces. At the same time, Quebec only accounted for 21% of Canada's numerically controlled machine tools (2), while Ontario's share was 63%. Quebec industry' tardiness in investing in R&D and modernizing its machine tool stock is another handicap to improving the productivity of Quebec firms, which in return can only hurt the competitiveness of products exported by the province.

Finally, the size of Quebec companies must also be considered a factor affecting the province's exports. Apparently exports are often made by large corporations. In fact, the latest data available (1984) show that barely 7.7% of Quebec's international manufacturing exports comes from small firms (3) in the manufacturing sector, whereas such small businesses account for a major share of the Quebec manufacturing sector's shipments (41.5% vs. 34.0% in Ontario).

The fact that small and medium-sized firms export relatively less than large corporations and that their share of the economy is greater in Quebec than in Ontario or Canada as a whole does not help Quebec increase its share of Canadian exports (4). However small and medium-sized businesses are responsible for a major share of exports of leather (53.7%), rubber and plastic products (49.5%), clothing (46.2%) and furniture and fixtures (42.6%) industries. It should be noted that these are industries whose output is characterized by its low value added, where foreign competition is strong and Quebec exports relatively little.

---

(1) Making Technology Work, Economic Council of Canada, 1986

(2) "Statistical Report on Canada NC/CNC Machine Tools (1985 survey)", Canadian Machinery and Metalworking Magazine

(3) A small firm is defined here as a business employing fewer than 200 employees.

(4) It should be noted that the data on exports by small businesses may be biassed, since the output of small firms is often used as a factor of production for major exporting corporations. Exports by small businesses may thus be underestimated.

The low level of exports by small businesses is due to a combination of factors:

- in most cases, small businesses were initially created to meet local needs, so exports are not a priority for them;

- the high canadian customs tarrifs in certain sectors where there are numerous small and medium-sized firms such as the textile, clothing and footwear (TCF) sectors, have long protected these industries from foreign competition. However, sheltering these industries has not helped them remain competitive either in domestic or foreign markets.

- small businesses are often undercapitalized and do not necessarily have the financial means to venture onto foreign markets; and

- small businesses have little familiarity with foreign markets and do not always know how to export (finding a distributor, setting up an after-sales network, etc.);

- the fashion or design content of the production of many small and medium-sized companies, especialy in the TCF sectors, is quite low; and

- small and medium-sized firms in general do not make great use of the new production technologies (e.g. CAD-CAM) which could increase their productivity and which would help them compete on foreign markets.

2. Labour cost

In Quebec's manufacturing industry, the traditional sectors, such as food, beverages, tobacco, furniture, textiles, clothing and footwear, are important (31% of manufacturing industry shipments in 1986). Firms operating in these sectors export only a small proportion of their output abroad (Table 19). These firms have trouble penetrating foreign markets for several reasons notably the fact that these industries' products are relatively labour-intensive and compete with the output of developing countries, where labour costs are substantially lower than in Quebec.

Table 19

Quebec's shipments and exports (1986)

Manufacturing industries	Shipments ($ thousands)	Exports/ Shipments (%)
Food, beverages, tobacco	10 692 608	11,7
Clothing	3 524 019	7,5
Textiles	2 852 630	8,4
Furniture	1 031 204	18,2
Leather	468 954	5,4

Source: BSQ (Quebec statistics bureau).

2.3 External factors

Since 1976, the Canadian dollar has depreciated 32% against the U.S. dollar, and it has fallen even further against the currencies of our main overseas economic partners. These exchange rate movements have given a definite competitive edge to Quebec and Canadian exports. Thus, the depreciation of the Canadian dollar against the U.S. currency was doubtless one of the factors contributing to the growth in exported goods from Quebec and Canada to the United States. But this edge did not generate a significant increase in our overseas exports. Moreover, there is a price to pay for benefitting from the advantages of the devaluation of the national currency. Indeed in the long term, Quebec firms are likely to have to pay more dearly for the imported production equipment needed for their modernization.

Other external factors may also influence the competitiveness of Quebec products, among them:

- corporate tax rates, which may influence the selling prices of exported products. In this

respect, Quebec's corporate tax rates are very competitive with the other provinces and the United States; and

- the aggressiveness with which domestic products are sold abroad. Unfortunately, it is only recently that a sustained effort in this direction has been made in Quebec. The long absence in Quebec of a real trader culture such as exists in other countries did not help.

3. Conclusion

Overall, Quebec's export performance has been good for some years now. None the less, a number of problems associated with the province's structure and the slowness in adopting new production methods in some sectors have prevented Quebec from realizing its full export potential. But recent developments give grounds for optimism. The federal government has expressed a greater desire for access to foreign markets, witness the conclusion of a Canada-U.S. free-trade agreement and Canada's active participation in the GATT negotiations.

THE QUEBEC TERTIARY SECTOR

Introduction

Despite its important contribution to economic activity, the tertiary sector remains relatively unknown. In this section, we will describe the main features of the sector and analyse its evolution.

The tertiary sector is generally defined in terms of what it is not, that is, as including all activities which are not covered by the primary and secondary (manufacturing and construction) sectors. According to Statistics Canada's 1970 Standard Industrial Classification, the services sector includes the following industries: transportation, communications and other utilities; trade; finance, insurance and real estate; socio-cultural, business and personal services; and public administration and defence. The 1980 Standard Industrial Classification, while more detailed, is not used here since most data bases have not yet been adjusted to correspond to it.

The tertiary sector is highly mixed in composition. Growth potential and employment characteristics vary considerably by industry within the sector.

1. Main features of the sector

In 1987, the tertiary sector accounted for 71% of all jobs and 67% of the GDP in Quebec (see Table 20). In Canada as a whole, the sector's share is similar in terms of jobs, but it accounts for only 63% of total output.

With close to 1 million jobs, the socio-cultural, business and personal services industry is by far the most important in terms of jobs and output. This industry includes educational, medical, entertainment, business, personal, accommodation and restaurant services. The finance, insurance and real estate industry lies second in terms of its contribution to Quebec's GDP and last in terms of jobs. Trade holds second place in the tertiary sector in terms of employment.

Table 20

Scope of the tertiary sector in Quebec
1987

	Employment (thousands)	G.D.P. $ million 1981
Transportation, communications and other utilities	232	9 211
Trade	521	11 039
Finance, insurance and real estate	169	12 660
Socio-cultural, business and personal services	984	19 195
Public administration and defence	209	5 067
Total tertiary	**2 115**	**57 172**
Total, all industries	**2 966**	**85 375**

Source: Statistics Canada, Conference Board

The labour force does not have the same features in the tertiary sector as in the economy as a whole. While women account for only 29% of jobs in the manufacturing sector, they represent 50% in the tertiary sector. They are particularly numerous in socio-cultural, business and personal services and finance, insurance and real estate, where they hold 60% of jobs. But they are under-represented in transportation, communications and other utilities, with only 24% of jobs.

The tertiary sector employs more than 90% of all part-time workers in Quebec (362,000). Socio-cultural, business and personal services employ by far the majority of these workers (216,000), primarily in restaurants and recreation.

Several tertiary sector industries require unskilled manpower, and this is reflected in the average weekly wages. Only transportation, communications and other utilities and public administration, where positions generally require a higher degree of specialization, offer wages above the manufacturing sector average (see Table 21).

Table 21

Average weekly wages
Quebec 1987

	$	% of manufacturing sector average
Transportation, communications and other utilities	584	121,4
Trade	317	65,9
Finance, insurance and real estate	455	94,6
Socio-cultural, business and personal services	370	76,9
Public administration and defence	564	117,3
Manufacturing sector average	**481**	**100,0**

Source: Statistics Canada.

2. Sector dynamics

The tertiarization of the Quebec economy continued from 1980 to 1987. Employment growth in the tertiary sector was higher than in the goods-producing sector. Indeed, the entire net job gain during the period was attributable to the tertiary sector (see Table 22). While the tertiary sector's share of total employment was 68% in 1980, it stood at 71% in 1987.

Table 22

Job creation in Quebec 1980-1986

	Employment 1980 (thousands)	Employment 1986 (thousands)	Variation (thousands)
Primary sector	127	118	-9
Secondary sector	728	733	+5
Tertiary sector	1 814	2 115	+301
Total	**2 667**	**2 966**	**+299**

Source: Statistics Canada, Labour Force Survey.

We used unpublished data from Statistics Canada (1) concerning the years 1978 and 1984 to analyse the evolution of the service industry subsectors both provincially and nationally.

From 1978 to 1984, employment in the tertiary sector rose by 10.1% in Quebec, compared with 12.9% in Canada as a whole and 16.5% in Ontario. In fact, only in retail trade was employment growth in Quebec higher than the Canadian average.

The business services subsector posted the highest employment growth (+22%) in the tertiary sector during the period from 1978 to 1984. But during the same period, employment in this industry rose by 32% in Ontario and 28% in Canada as a whole. In Quebec, computer services companies and management consulting

(1) Employment Dynamics: Focus on Canada's Service Sector, 1978 and 1984, Commercial Services Directorate, Department of Regional Industrial Expansion, 1987.

firms contributed the most to employment growth in business services. On the other hand, engineering firms lost some 6,000 jobs during the period, owing to a slowdown in major hydro-electric projects in Quebec.

Employment in the finance, insurance and real estate industry grew by only 0.5% during the period in Quebec, compared with 14% in Ontario. On the one hand, employment among investment brokers and dealers showed phenomenal growth in Ontario during the period. On the other hand, employment in banks and insurance companies declined over the same period in Quebec. The exodus of head offices appears to be largely responsible for job losses in Quebec during this period. The strong growth of investment brokers in Ontario confirms Toronto's status as Canada's premier financial centre.

The fall in Quebec's relative share in business services and finance, insurance and real estate is all the more significant since these two industries are among the most likely to generate growth in the economy as a whole. Indeed, through their tight links with the other sectors of the economy, these industries work toward increasing productivity in the economy as a whole.

3. Breakdown of small and medium-sized businesses by region

In 1987, 75.3% of Quebec's small businesses were in the tertiary sector, compared with only 65.5% of large corporations. Small businesses are defined here as firms with fewer than 100 employees or sales of less than $20 million. They account for more than 99% of all firms in the tertiary sector, the same proportion as in the economy as a whole. But their share* of earnings (52%) and jobs (42%) was much lower. The number of small businesses is particularly high in retail trade and finance, insurance and real estate.

It is worthwhile pointing out that between 1981 and 1985, small and medium-sized businesses were responsible for the entire net job gain in the tertiary sector. Large corporations as a whole posted a net job loss during the period. Only large corporations in the retail trade industry experienced net job gains.

1985 data

The breakdown of tertiary sector small firms by region is very similar to that in the secondary sector. Thus, 67% of tertiary sector small businesses are located in the Montreal administrative region (see Table 23). The Quebec City region is second, with close to 14% of tertiary sector small firms.

Table 23

Breakdown of small businesses by administrative region 1987

	Number	%
Lower St. Lawrence/Gaspé	2 802	2,3
Saguenay/Lac St. Jean	3 942	3,3
Quebec City	16 320	13,6
Mauricie/Bois Francs	6 211	5,2
Eastern Townships	3 870	3,2
Montreal	79 955	66,9
Outaouais	2 811	2,4
Abitibi-Témiscaming	2 380	2,0
North Shore/New Quebec	1 280	1,1
Total	**119 571**	**100,0**

Source: Les PME au Québec, (small businesses in Quebec), report of the provincial minister responsible for small business, 1987.

4. Exports of services

Data on international trade in services for Quebec are virtually non-existent, so we will deal here with the situation of Canada as a whole to illustrate the behaviour of trade in services.

Whereas Canada ranked eighth in the world for the value of its exports of goods, it was only 15th for exports of services in 1980.

In 1986, Canada exported $17.7 billion worth of services abroad. These earnings were accounted for as travel, freight and shipping, business services, and government transactions. On the other hand, imports of services totalled $21.9 billion.

Canada thus posted a $4.3 billion deficit in trade in services in 1986. Business services accounted for 64% and travel for 27% of this deficit.

A special Statistics Canada study (1) on the year 1984 provides the data for a more detailed analysis of international trade in business services. The data show that in 1984 business services accounted for one-half of the $2.2 billion deficit in overall international trade in services.

Of business services, only consulting services and other specialty services posted a trade surplus ($681-million), with all other sectors recording deficits. This deficit was particularly large in, on the one hand, "royalties, patents and trademarks" and "research and development" services ($1.7 billion) and, on the other hand, management and administrative services ($752 million). International service transactions clearly illustrate Canada's weak R&D showing and its dependence on foreign countries for acquiring new technologies.

The business services deficit is attributable almost entirely to business transactions with the United States.

Exports of business services are largely attributable to Canadian controlled companies trading with non-affiliated concerns in countries other than the United States. Consulting services account for a significant share of these exports. Moreover, imports of business services are largely attributable to foreign controlled companies trading with affiliates in the United States. Royalties, patents and trademarks, R&D services and managment and administrative services represent a large share of Canadian imports of services.

Statistics Canada attempted to estimate international trade in business services by Canadian region, breaking down these services by location of the company's head office. As one may expect, Ontario and Quebec

(1) Canada's international trade in services, 1969 to 1984, Catalogue 67-510 Occasional.

are responsible for more than 80% of exports and approximately 75% of imports. According to this estimate, Quebec is a net exporter of business services (+$587 million), while Ontario is a net importer (-$1,838 million) (see Table 24).

Ontario's deficit in trade in business services is almost entirely due to expenditure on R&D, royalties, patents and trademarks and management services to U.S. parent companies. It must be remembered that subsidiaries of multinationals occupy an important position in Ontario's economic structure. The breakdown of trade in business services according to the head office of the company could also have biassed these results somewhat by allocating to Ontario imports carried out by a firm located in Quebec but with its head office in Ontario.

Nor must this deficit be seen as totally negative for the Ontario economy. In fact, it has certainly led to increased adoption of new technologies and new management practices by Ontario firms, thus enhancing their international competitiveness.

Table 24

International trade in business services by province[1] 1984

	Exports	Imports	Balance
		($ millions)	
British Columbia	629	854	- 225
Alberta	135	300	- 165
Saskatchewan	7	24	- 17
Manitoba	3	438	- 435
Ontario	1 883	3 721	- 1 838
Quebec	1 819	1 232	587
New Brunswick	9	18	- 9
Nova Scotia	2	65	- 63
Prince Edward Island	-	-	-
Newfoundland	-	13	- 13
Total	**4 486**	**6 667**	**- 2 181**

(1) By head office location.

Source: Statistics Canada.

Conclusion

An in-depth analysis of the tertiary sector, which accounts for some three-quarters of the country's economic activity, is still difficult since the statistical data bases on the sector remain highly limited.

This situation should improve, since DRIE has set up an ambitious research program on Canada's service sector. Under this program, the Fraser Institute is studying the growth of the sector in Canada, the Institute for Research on Public Policy is focussing

on international trade in services, and Statistics Canada is seeking to improve the sectoral data base.

Knowledge of the features and dynamics of the sector is all the more important since several provisions of the Canada-U.S. free trade agreement will now be applying to international trade in services. Among other things, these provisions concern the right of establishment, professional standards and national treatment. At the same time, within the context of the new round of GATT negotiations, the signatory countries have also agreed to study the question of trade in services. To begin with, the scope of negotiations will simply be the establishment of a multilateral framework of rules and principles.

NEW APPROACHES TO INDUSTRIAL DEVELOPMENT AND REGIONAL DEVELOPMENT

Regional development

For many years the Canadian government has pursued a policy of equality of opportunity in all regions of the country. It was therefore sensitive to the fact that the economic growth of the past five years in Canada has primarily occurred in the centre of the country, while the multiplier effect of these poles of growth has not been sufficient to reduce socio-economic disparities in Atlantic Canada or to accelerate economic diversification in Western Canada.

In the Speech from the Throne on October 1, 1986, the government clearly indicated its intention to consider new approaches to regional development. While reaffirming that regional development remained a priority, the government stated publicly that it had not been enough to commit ever greater sums in assistance to disadvantaged regions, since these development programs had done little to reduce disparities in unemployment rates and opportunities for productive employment.

At a time of budgetary constraint, the struggle against disparities thus required the adoption of a more effective approach more closely geared to local opportunities and taking into account the specific conditions that exist in each region. This new approach should consequently focus on the human and natural resources specific to each region, while seeking to elicit renewed co-operation among local groups.

In its report to the House submitted on June 30, 1987, the Standing Committee on Regional Industrial Expansion also favoured a profound refocussing of the approach to regional development. Indeed, briefs heard by the Committee convinced its members that regional development programming should be separated from industrial development programming. According to the Committee's recommendations to the government, the purpose of this separation would be to ensure that regional programs dealt with the regions' concerns, especially local small and medium-sized businesses' concerns, without having to be the main vehicle for the implementation of national industrial policies at the same time. A further purpose of this separation of the two types of programming would be to encourage the involvement of local people in drawing up development programs for their regions.

Following the House Committee's advice, the government adopted a new approach to regional development which consists in concentrating financial resources and decision-making authority in the regions, near the people who know where the opportunities are. The government acted from the principle that regional development programs must be rooted in the actual regions where they are to be implemented, and that they must take into account the advice of people living in these regions, since their involvement appears essential for the success of any regional development initiative.

With respect to regional development, the federal government thus embarked upon the road to increased decentralization with the announcement on June 6, 1987, of the creation in Eastern Canada of the Atlantic Canada Opportunities Agency (ACOA), with $1 billion in funding for five years. On July 13, 1987, the government announced the creation of a Northern Ontario Development Fund, with some $55 million for five years. On August 4, 1987, it also announced the creation of the Western Diversification Office (WDO), with a $1.2 billion five-year fund. The same day, the government announced the dismantling of the Department of Regional Industrial Expansion and the creation of the Department of Industry, Science and Technology, with a separate section to be responsible for regional development in Ontario and Quebec.

On December 22, 1987, at Sept Iles on Quebec's North Shore, the Honourable René R. de Cotret announced his intention to establish a vast regional development initiative for Quebec's outlying regions, including Gaspé and the Lower St. Lawrence, the North Shore, Saguenay and Lac St. Jean, and Northwestern Quebec. At the same time the government undertook to consult the people in those regions and their spokesmen from the business world in order to define development priorities with them and design programs suited to the regions' aspirations and potential.

Industrial development

Over the past three years, the Canadian government has continued to promote a series of policies designed to boost the international competitiveness of Canadian industry. This vast action plan consists of initiatives aimed for instance at deregulating key sectors of the economy, supporting science and technology, assisting small businesses, privatizing certain Crown corporations and modernizing regulations in the financial services sector, as well as major trade policy initiatives intented to guarantee access to markets for Ca-

nadian exporters. The basic principle behind these policies is that the private sector must be the driving force of the economy, and that government's real role in economic development is to provide an environment favourable to entrepreneurship and business excellence.

To implement these policies, the Government of Canada negotiated a major agreement on free trade with the United States. Furthermore, the federal government was a highly active participant in preparatory discussions for the Uruguay Round of multilateral trade negotiations. The Canadian government also established the InnovAction program to channel Canadian efforts in science and technology in five specific fields: industrial innovation and technological transfer, development of strategic technologies, effective management of federal resources allocated to science and technology, increasing human resources in science and technology, and public education and familiarization. The Prime Minister also chairs an Advisory Board on Science and Technology. These initiatives illustrate the Canadian government's new approach to industrial and technological development, an approach henceforth distinct from regional development policy.

The Canadian government's new approach to industrial development is institutionalized through the creation of the future Department of Industry, Science and Technology. This department's mandate reflects the government's commitment to building a competitive industrial economy at the leading edge of technological progress, in order to enhance Canada's long-term competitive position.

The new department will act in partnership with the private sector, the scientific community and other levels of government to promote competitiveness and industrial excellence in Canada; to renew and rebuild the national scientific, technological, managerial and production base; and to bring together in a concerted way the talents of Canadians to help place Canada in the first rank of industrial and commercial nations in the 21st century.

The department will be the ardent, effective and well-informed advocate of the industrial and scientific communities within the federal government. The government's various policies have major impact on business and industry; indeed there are several links between science and technology and the other economic and social policies. The Department of Industry, Science

and Technology is defined as a major department exercising its influence on the formulation of government policies; it will work with other departments to convey the views of industry and scientists on such issues as taxation, trade, resource exploitation and the development of transportation and communications. In order to be able to effectively defend the interests of industry and science within the government, the department will have to have numerous, complete data. It will study in depth the foreign and domestic markets, the components determining the competitiveness of businesses and the various factors influencing Canadian industry. It will attempt to become fully familiar with the competition, technology and international market in all industrial sectors.

The creation of the Department of Industry, Science and Technology is proof positive of the government's desire for science to be more closely integrated with industry. To this end, it will foster the development of technologies recognized as strategically important for Canada, such as microelectronics and information technology, biotechnology, and new materials. The new department will also promote industrial innovation, in particular by maintaining the Defence Industry Productivity Program, which has contributed greatly to technological development and transfer in the defence and aerospace fields. The new department could for instance invest in industrial R&D in partnership with firms and consortiums, have targetted research carried out by the NRC and other government laboratories, devote more funds to training highly skilled personnel through the NSERC, and conduct prospecting abroad for the technologies needed in Canada.

The new department will emphasize the industrial sectors. In co-operation with industry, it will study a given sector's needs and opportunities to determine what must be done to enhance the sector's competitiveness. The department will then use the different tools at its disposal in a campaign targetting the entire sector. Depending on the sector, this campaign may consist of export promotion initiatives or programs aimed at implementing technologies, providing information services on businesses and technology or investment prospecting. At the same time, the department will pay special attention to the particular needs of small and medium-sized business owners.

In addition, the department will work with business to promote Canadian firms through trade fairs and missions, business opportunity tracking devices, import replacement initiatives, advice on exports for Canadian producers and brokerage services on the interna-

tional market. It will also conduct investment prospecting activities, seek to ensure industrial profits through public contracts and provide its customers with other similar services. The programs and services provided by the department should cover the whole range of industrial activities.

The Department of Industry, Science and Technology will have offices in each province which will act as points of contact for businesses, including small firms which have neither the resources nor the flexibility necessary to constantly go to Ottawa for services and information. These local offices will enable the department to serve its customers quickly, gather up-to-date information on firms and stay in touch with industry.

In short, all the new department's activities will be focussed on international competitiveness and industrial excellence. The department will:

- foster the development of strategic technologies -- biotechnology, information technology and new industrial materials;
- examine the needs and opportunities of various industrial sectors to determine, in co-operation with industry, what action must be taken to enhance international competitiveness;
- work with the Canadian business world to promote business through market development;
- maintain offices in each province which will be the main points of contact for businesses, and which will act as delivery agents focussing on customer services, providing rapid access to government activities;
- consult on an ongoing basis with business, scientific, trades union and university community representatives and government representatives concerning the design and establishment of programs and services.

The new department will also have responsibility for Native economic development and the regional development initiatives affecting Ontario and Quebec. Responsibility for regional development in Ontario and Quebec will be given to regional offices distinct from the new department's regional offices so that staff there may concentrate on their respective geographic regions.

Keeping the functions separate in this way will ensure the desired separation between the new approaches to industrial development and regional development.

SOURCES OF STATISTICAL DATA USED IN THIS PUBLICATION

Indicators	Sources
International data	"OECD Economic Perspectives" Organization for Economic Co-operation and Development
GDP	Conference Board
Retail sales	Statistics Canada
Exports/Imports	Quebec Statistics Bureau (BSQ) and Statistics Canada
Capital expenditure	Statistics Canada
Personal income	Conference Board
Personal disposable income	Conference Board
Housing starts	Statistics Canada
Bankruptcies	Office of the Superintendent, Bankruptcy
Person-days lost	Quebec Department of Labour
Corporation profits	Statistics Canada
Employment, unemployment, labour force	Labour Force Survey, Statistics Canada
Trade balance	BSQ and Statistics Canada
Current operating balance	Statistics Canada

SOURCES OF STATISTICAL DATA SED IN THIS PUBLICATION

(cont'd)

Capacity utilization rate	Statistics Canada
Consumer Price Index	Statistics Canada
Industrial selling prices	Statistics Canada
Manufacturing shipments	Statistics Canada
Mining shipments	Quebec Department of Energy and Resources
Farm cash receipts	Statistics Canada
Value of fish landings	Fisheries and Oceans Canada
Construction sites	Quebec Construction Office